2008

State of Utah

Comprehensive Annual Financial Report

For the Fiscal Year Ended **June 30, 2008**

State Of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2008

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Jon M. Huntsman, Jr. .... Governor
Gary R. Herbert .... Lt. Governor
Auston G. Johnson, CPA .... State Auditor
Edward T. Alter, CPA .... State Treasurer
Mark L. Shurtleff .... Attorney General
John L. Valentine .... President of the Senate
Greg J. Curtis .... Speaker of the House
Christine M. Durham .... Chief Justice, Supreme Court

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Kimberly K. Hood .... Executive Director, Department of Administrative Services
John C. Reidhead, CPA .... Director, Division of Finance
John E. Nixon, CPA .... Director, Governor's Office of Planning and Budget
Jonathan C. Ball .... Director, Office of the Legislative Fiscal Analyst
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ACKNOWLEDGMENTS

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Special appreciation is given to all of the budget and accounting officers throughout the State whose extra time and effort made this report possible.

Department of Administrative Services: Division of Finance Accounting Standards and Financial Reporting Section

State of Utah
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For the Fiscal Year Ended June 30, 2008

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the State of Utah conform in all material respects with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board. Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

A. Reporting Entity

For financial reporting purposes, the State of Utah reporting entity includes the "primary government" and its "component units." The primary government includes all funds, agencies, boards, commissions, and authorities that are considered an integral part of the State's activities. The State's component units are legally separate organizations for which the State's elected officials are financially accountable.

The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and either: (***1***) the ability of the State to impose its will on that organization or; (***2***) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State. Where the State does not appoint a voting majority of an organization's governing body, GASB standards require inclusion in the reporting entity if an organization is fiscally dependent on the State, its resources are held for the direct benefit of the State or can be accessed by the State, or the relationship is such that it would be misleading to exclude it.

Except where noted below, the State's component units issue their own separate audited financial statements as special-purpose governments engaged only in business-type activities. These financial statements can be obtained from their respective administrative offices or from the Utah State Auditor's Office, P.O. Box 142310, Salt Lake City, UT 84114.

Entities such as the local school districts, charter schools, and other local authorities of various kinds that may only partially meet the criteria for inclusion in this report have not been included. (The State's support of the public education system is reported in the Uniform School Fund, a special revenue fund.)

Blended Component Units

Blended component units provide services entirely or almost entirely to the primary government. GASB standards require this type of component unit to be reported as part of the primary government and blended into the appropriate funds.

Utah State Building Ownership Authority (blended with the primary government's debt service and capital projects funds) — The Authority was created by the Legislature as a body politic and corporate for the purpose of financing, owning, leasing and operating facilities to meet the needs of state government. It is comprised of three members: the Governor or designee, the State Treasurer and the Chair of the State Building Board. Separate financial statements are not required or issued for the Authority.

Discrete Component Units

Discretely presented component units are reported in a separate column and/or rows in each of the government-wide statements to emphasize that they are legally separate from the State. The Governor appoints at least a majority of the governing board members of each of the State's component units, subject in most cases to approval by the Senate. The Utah Housing Corporation is included in the reporting entity because of its ability to issue moral obligation debt of the State and low-income housing tax credits. The other component units are included in the reporting entity because under the criteria established by GASB, the State has the ability to impose its will on these organizations. The colleges and universities, the Public Employees Health Program, Comprehensive Health Insurance Pool and the Schools for the Deaf and Blind are included as component units due to the level of oversight provided by the State. The Governor-appointed board members of the remaining component units can be replaced at will.

The State's major discrete component units are:

Utah Housing Corporation — The Corporation issues bonds to provide capital for housing and home mortgages, especially for low and moderate-income families. Operations are financed from bond proceeds and from mortgage and investment interest and fees.

Public Employees Health Program — This Program provides employee medical and other insurance services predominantly for agencies of the State. It also provides claims processing and insurance services for local governments and other public entities within Utah. The Program is administered by the Utah State Retirement Board.

University of Utah and Utah State University — These universities are funded primarily through state appropriations, tuition, federal grants, and private donations and grants. In addition to instruction, these universities provide research and other services. The operations of the University of Utah also include its hospital and clinics.

The State's nonmajor discrete component units are:

Comprehensive Health Insurance Pool — The Pool is a nonprofit quasi-governmental entity established within the State Insurance Department. It provides access to health insurance coverage for residents of the State who are considered uninsurable.

Utah Schools for the Deaf and the Blind — These Schools provide practical education to individuals with hearing and/or vision impairments. Although not required, these Schools issue separate but unaudited financial statements.

Heber Valley Historic Railroad Authority — The Authority is an independent state agency that maintains and operates a scenic and historic railroad in and around the Heber Valley. The Authority has a separate compilation report, but separate audited financial statements are not required or issued for it.

Utah State Fair Corporation — This is a nonprofit public corporation that operates the State Fair Park and conducts the Utah State Fair and other various expositions and entertainment events. It receives state appropriations for operations and working capital. The reporting period for the State Fair Park was changed from a fiscal year to a calendar year ending December 31, 2007. The accompanying financial statements include a six month time period for the State Fair Park from July 1, 2007 to December 31, 2007, in order to transition to the new reporting period.

Colleges and Universities — Weber State University, Southern Utah University, Salt Lake Community College, Utah Valley University, Dixie State College of Utah, College of Eastern Utah, Snow College, and the Utah College of Applied Technology. Separate audited financial statements are not required or issued for the Utah College of Applied Technology; however, its significant branch campuses each issue separate audited financial statements.

State Charter School Finance Authority — The Authority was created to provide an efficient and cost-effective method of issuing conduit debt on behalf of charter schools to acquire or construct charter school facilities. The debt is the responsibility of the charter schools, and neither the State nor any political subdivision of the State is obligated for repayment of the debt. Accordingly, this debt is not included as part of the State's reporting entity. There is no financial activity for the Authority and therefore no financial statements are required or issued.

Fiduciary Component Units

Utah Retirement Systems (defined benefit pension plans and defined contribution plans) — Utah Retirement Systems (URS) administers pension funds for various public employee retirement systems and plans of the State and its political subdivisions. URS is an independent state agency subject to legislative and executive department budgetary examination and comment. The Utah State Retirement Board, a seven-member board, is established by statute to administer the systems and plans, and to serve as investment trustees of the funds. Six members are appointed by the Governor with the advice and consent of the Senate, while the State Treasurer serves as the seventh member. Because of the State's trustee responsibilities for these systems and plans, GAAP requires them to be reported as pension trust funds of the primary government rather than discrete component units. In accordance with GAAP, fiduciary funds and component units that are fiduciary in nature are excluded from the government-wide financial statements.

Related Organization (Excluded from Financial Statements)

Workers' Compensation Fund — This Fund is a nonprofit quasi-public corporation created by the Legislature for a public purpose that provides workers' compensation insurance to private and public employers. The Governor appoints six of the Fund's seven board of directors, but the State's financial accountability for the Fund does not extend beyond making the appointments.

B. **Government-wide and Fund Financial Statements**

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities report information on all nonfiduciary activities of the primary government and its component units. Primary government activities are distinguished between *governmental* and *business-type* activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets presents the reporting entities' non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The State does not allocate general government (indirect) expenses to other functions. Program revenues include: (***1***) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (***2***) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. For governmental and proprietary funds financial statements, the emphasis is on major individual governmental and enterprise funds, with each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Internal service funds are also aggregated and reported in a separate column on the proprietary funds financial statements.

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Nonexchange transactions, in which the State receives value without directly giving equal value in exchange, include taxes, grants, and donations. Tax revenue is recognized in the fiscal year in which the related sales, wages, or activity being taxed occurred. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers taxes and other revenues to be available if the revenues are collected within 45 days after yearend. An exception to this policy is federal grant revenues, which generally are considered to be available if collection is expected within 12 months after yearend.

Expenditures are generally recorded when the related liability is incurred, as under the accrual basis of accounting. However, expenditures for principal and interest on long-term debt are recorded when due or when amounts have been accumulated in the debt service fund for payments of interest to be made early in the following year. Also, expenditures and related liabilities for compensated absences, postemployment benefits, and claims and judgments are recorded only to the extent they have matured (come due for payment).

Major Governmental Funds — The State reports the following major governmental funds:

- **General Fund**. This fund is the principal operating fund of the State. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- **Education Fund**. This special revenue fund accounts for all revenues from taxes on intangible property or from a tax on income that supports public and higher education.
- **Uniform School Fund**. This special revenue fund accounts for specific revenues and expenditures that support public elementary and secondary schools in the State.
- **Transportation Fund**. This special revenue fund accounts for revenues and expenditures associated with highway construction and maintenance.
- **Transportation Investment Fund**. This special revenue fund accounts for revenue and expenditures associated with Centennial Highway projects and other specific highway projects.
- **Trust Lands Fund**. This is a permanent fund that accounts for land grants and the sale of lands received from the federal *Enabling Act*. The principal in the fund is perpetual, with the earnings used primarily to support public education.

Nonmajor Governmental Funds — The State's nonmajor governmental funds include other special revenue funds, capital projects funds, and debt service funds. The nonmajor special revenue funds account for specific revenue sources that are legally restricted to expenditures for specific purposes. Examples include tobacco settlement monies, environmental activities, crime victim reparations, debt collections, and rural development programs. The capital projects funds account for the resources used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds. The debt service funds account for resources used for the payment of interest and principal on general long-term debt obligations.

Proprietary Fund Financial Statements

The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described previously. Proprietary funds include both enterprise and internal service fund types. Enterprise funds report the activities for which fees are charged to external users for goods or services. Internal service funds account for goods and services provided primarily to other agencies or funds of the State, rather than to the general public.

Reporting for business-type activities and enterprise funds follow all GASB pronouncements, and all Financial Accounting Standards Boards (FASB) pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The State has elected not to apply FASB pronouncements issued after November 30, 1989.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as subsidies and investment earnings, are reported as nonoperating.

Major Enterprise Funds — The State reports the following major enterprise funds in its proprietary fund statements:

- **Student Assistance Programs**. These programs make loans to, and purchase loans of, qualified students attending eligible higher education institutions. The programs also guarantee the repayment of student loans made by participating lenders to eligible students.
- **Unemployment Compensation Fund**. This fund pays claims for unemployment to eligible recipients.
- **Water Loan Programs**. This fund provides loans to local governments, water districts, and other entities for the purpose of upgrading water storage facilities and other related structures.

Nonmajor Enterprise Funds — The State's nonmajor enterprise funds include loan programs for communities, low-income housing, agricultural and other purposes; Alcoholic Beverage Control (state liquor stores); Utah Correctional Industries; State Trust Lands Administration; and the Utah Dairy Commission.

Internal Service Funds — The State also reports the internal service fund type in the proprietary funds statements. The activities accounted for in internal service funds include technology services, fleet operations, risk management, copy and mail services, property management, transportation infrastructure, and human resource management. In the government-wide financial statements, internal service funds are included with governmental activities.

Fiduciary Fund Financial Statements

The fiduciary funds account for assets held by the State in a trustee capacity or as an agent for other individuals or organizations. The fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following fiduciary fund types are reported:

Pension and Other Employee Benefit Trust Funds — These funds account for the plan assets, liabilities, net assets, and changes in net assets of: (***1***) defined benefit pension plans and defined contribution plans administered by Utah Retirement Systems; and (***2***) the State Post-Retirement Benefits Trust Fund, a defined benefit other postemployment health care plan (OPEB Plan), administered by the State.

Investment Trust Fund — This fund is used to account for the investments related to external participants in the Utah State Public Treasurer's Investment Fund.

Private Purpose Trust Funds — These funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations or other governments. Examples include the Utah Navajo Trust, Unclaimed Property Trust, Employers' Reinsurance Trust, Petroleum Storage Tank Trust, and the Utah Educational Savings Plan Trust.

Agency Funds — These funds account for assets held by the State as an agent for other governmental units, other organizations, or individuals. These funds include fines, forfeitures, tax collections, and withholding taxes for employees.

Component Unit Financial Statements

The combining component unit financial statements are presented in order to provide information on each of the major component units included in the component unit's column of the government-wide statements. The component unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The information is presented in order to be consistent with the government-wide statements, and is less detailed than the presentation in each component unit's separately issued financial statements. The component units follow all current GASB pronouncements, and all FASB pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. In addition, as allowed by GASB standards, the Public Employees Health Program has elected to apply all applicable FASB pronouncements issued after November 30, 1989, that do not conflict with GASB standards.

D. **Fiscal Yearends**

All funds and discretely presented component units are reported using fiscal years which end on June 30, except the defined benefit pension plans and defined contribution plans (fiduciary funds), administered by Utah Retirement Systems, Utah State Fair Corporation (nonmajor component unit), and the Utah Dairy Commission (nonmajor enterprise fund), which have fiscal years ending December 31.

E. **Assets, Liabilities, and Net Assets/Fund Balances**

Cash and Cash Equivalents and Investments

Cash equivalents are generally considered short-term, highly liquid investments with a maturity of three months or less from the purchase date. The Student Assistance Programs (enterprise fund) use a trustee for their long-term investing needs, and they consider any cash and cash equivalents held by their trustee as investments.

All cash deposited with the State Treasurer by state entities is maintained by the Treasurer in various pooled investment funds. The State Treasurer invests the deposited cash, including the cash float, in short-term securities and other investments. All interest revenue is allocated to the General Fund unless state law or trust agreements require allocations of interest to other funds. Funds authorized to receive interest earnings are segregated into separate investment pools, and interest is allocated based on cash balances in the pool.

Investments (including cash equivalents) are under the control of the State Treasurer or other administrative bodies as determined by law. In certain instances, investments may be restricted by law or other legal instruments. Investments are presented at fair value. The fair value of investments is based on published prices and quotations from major investment brokers at current exchange rates, as available. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments. Investments held as security deposits which are not held for investment purposes are carried at cost. The Utah Retirement Systems' (defined benefit pension plans and defined contribution plans) mortgages are valued on an amortized cost basis which approximates fair value, and the fair value of real estate investments has been estimated based on independent appraisals.

The State's Unemployment Compensation Fund (enterprise fund) monies are required by the Social Security Act to be invested in the U.S. Department of Treasury, Bureau of Public Debt Unemployment Trust Fund (BPDUTF), which is not registered with the SEC. The fair value of the position in the BPDUTF is the same as the value of the BPDUTF shares.

Utah Retirement Systems (defined benefit pension plans and defined contribution plans) held four types of derivative financial instruments at yearend: futures, currency forwards, options, and swaps. Futures contracts are traded on organized exchanges to minimize credit risk. Currency forwards are entered into in order to hedge the exposure to changes in foreign currency exchange rates on foreign currency dominated portfolio holdings. Utah Housing Corporation (major component unit) enters into various rate swap contracts in order to increase funding capabilities. The Corporation sells variable rate bonds and minimizes the inherent risk with the use of floating-to-fixed interest rate swap contracts. See Note 3 for additional information about derivatives.

Receivables

Accounts receivables in the governmental and business-type activities consist mainly of amounts due from the Federal Government, customers, and others. Receivables from the Federal Government are reasonably assured; accordingly, no allowance for uncollectible accounts has been established.

Notes/mortgages receivables in the governmental and business-type activities are primarily long-term loans for local governments and agricultural development, home mortgages, and individual student loans. The interest rates on the loans vary but are generally lower than market rates and, in some cases, are non-interest bearing. Student loans in the Student Assistance Programs (business-type activities) are fixed and variable rate federally insured loans. Student loans are insured at 95 to 100 percent of their principal balance depending on the date disbursed.

Accrued taxes include receivables for taxpayer-assessed taxes where the underlying exchange has occurred in the period ending June 30 or prior, net of applicable estimated refunds and allowances.

Note 5 provides a disaggregation of governmental and business-type receivables, including a breakout of current/noncurrent balances and established allowances.

Inventories and Prepaid Items

Proprietary funds and component units inventories are valued at the lower of cost or market. Cost evaluation methods include first-in-first-out (FIFO), last-in-first-out (LIFO), average cost, weighted average, weighted moving average, and retail inventory method.

Governmental fund inventories are recorded as expenditures when purchased except for Transportation Fund inventories that are recorded as expenditures when consumed. Transportation Fund inventories are valued using a weighted average cost.

Prepaid items related to governmental funds are immaterial and recorded as expenditures in the governmental funds financial statements when paid.

Prepaid items for the Student Assistance Programs (enterprise fund) are primarily federal default fees charged at the time loan proceeds are disbursed and are amortized over the estimated lives of the loans using a method which approximates the interest method of amortization.

Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure (roads, bridges, drainage systems, lighting systems, and similar items), are reported in the applicable governmental or business-type activities columns, or in the component units column on the government-wide Statement of Net Assets. Capital assets of proprietary funds and fiduciary funds are also recorded in their respective fund statements. Capital assets, with the exception of infrastructure, are defined by the State as assets, which cost $5 thousand or more when acquired and have an estimated useful life greater than one year. Infrastructure assets are capitalized if the cost is over $1 million. Purchased or constructed capital assets are recorded at cost or at estimated historical cost where historical cost is not available. Donated fixed assets are valued at their estimated fair value at the date of donation.

Capital assets purchased by governmental funds are recorded as expenditures in the governmental fund financial statements. Interest expense for capital asset construction related to governmental activities is not capitalized. Interest expense incurred during construction of capital facilities related to business-type activities and component units is immaterial and is not capitalized in all cases.

Buildings, equipment, and other depreciable assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Years
Equipment	3–15
Aircraft and Heavy Equipment	5–30
Buildings and Improvements	30–40
Land Improvements	5–20
Infrastructure	15–80

As provided by GASB standards, the State has elected to use the "modified approach" to account for infrastructure assets (roads and bridges) maintained by the State's Department of Transportation. This includes infrastructure acquired prior to fiscal year 1981. Under this approach, depreciation expense is not recorded and only improvements that expand the capacity or efficiency of an infrastructure asset are capitalized. Using this approach requires the State to: (***1***) maintain an inventory of the assets and perform periodic condition assessments; (***2***) estimate each year the annual amount to maintain and preserve the assets at the condition level set by the State; and (***3***) document that the assets are being preserved approximately at or above the condition level set by the State. Other infrastructure, which is primarily maintained by the Department of Natural Resources, is capitalized and depreciated.

Most works of art and historical treasures are not capitalized or depreciated. These assets are held for public exhibition, education, or research rather than financial gain. These assets are also protected, unencumbered, and preserved and subject to policies requiring the proceeds from sales of collection items to be used to acquire other collection items. The State's assets of this nature include the State Fine Art Collection, photographs, prints, paintings, historical documents and artifacts, monuments, statues, and paleontological and archaeological collections.

Accrued Liabilities

Accrued liabilities include the liability for employee payrolls and liabilities accruing over time where demand for payment is due shortly after fiscal yearend. See Note 6 for additional information about accrued liabilities.

Deferred Revenue — Unearned and Unavailable

In the government-wide statements, proprietary fund statements, and fiduciary fund statements, unearned revenue is recorded when cash or other assets are received prior to being earned. In the governmental fund statements, deferred revenue is recorded when revenue is either unearned or unavailable. Deferred revenues for the Student Assistance Programs (enterprise fund) are primarily guarantee fees that are recognized as income over a period of ten years using the sum-of-the-years-digits method.

Policy Claims Liabilities

Policy claims liabilities are for insurance claims incurred prior to the reporting date and are based on actuarial estimates. Policy claims liabilities for Unemployment Insurance are for claims filed as of the reporting date. A substantial portion of policy claims liabilities is long-term in nature. Therefore, claims liabilities are reported as long-term liabilities on the Statement of Net Assets.

Long-term Debt

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, deferred amounts on refunding, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method or straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges (assets).

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The *Tax Reform Act of 1986* requires governmental entities issuing tax-exempt bonds to refund to the U.S. Treasury interest earnings on bond proceeds in excess of the yield on those bonds. Governmental entities must comply with arbitrage rebate requirements in order for their bonds to maintain tax-exempt status. Entities are required to remit arbitrage rebate payments for non-purpose interest to the federal government at least once every five years over the life of the bonds. Federal regulations also require the Student Assistance Programs (enterprise fund) to keep the yield on student loans within a designated percentage of the interest cost of the related tax-exempt borrowing. One method of reducing this yield is to make yield reduction payments to the United States Treasury. Estimated yield reduction payments may be made by the end of the tenth year and every fifth year thereafter during the life of the bonds. Some State of Utah bonds may be exempt from the rebate requirements if they meet certain statutory exceptions per the regulations.

Arbitrage liability is treated as an expense in the government-wide Statement of Net Assets and the proprietary fund financial statements when the liability is recognized. Arbitrage liability is recorded as an expenditure in the governmental funds financial statements when the liability is due. At June 30, 2008, the total estimated arbitrage rebate liability in the Student Assistance Programs (enterprise fund) was $65.944 million, of which $63.729 million represents yield reduction payments and $2.215 million represents the estimated liability for non-purpose interest. Other arbitrage liabilities are immaterial.

Compensated Absences and Postemployment Benefits

Employees' vacation leave is accrued at a rate of four hours every two weeks for the first five years of employment, and grows to a rate of seven hours every two weeks after 20 years of employment. There is no requirement to use vacation leave, but a maximum of 320 hours may be carried forward at the beginning of each calendar year. Unused vacation leave is paid to employees upon termination. Employees who have a sick leave balance in excess of 144 hours at the beginning of a calendar year are eligible to "convert" up to 40 hours of sick leave if less than that amount is used during the year. Employees may use converted sick leave in place of annual leave. Any balance in converted sick is paid to employees upon termination. This converted sick leave program ends on January 1, 2014. The total liability of the governmental activities for compensated absences is recorded in the government-wide Statement of Net Assets as part of long-term liabilities. However, in accordance with GAAP, the liability is not recorded in the governmental funds financial statements. See Note 10 for additional information about the liability.

Employees earn sick leave at a rate of four hours for each two-week period, with no limit to the amount that can be accumulated. The State does not reimburse employees for unused sick leave upon termination unless employees are eligible for retirement or the sick leave is "converted". Sick leave is expended when used.

At retirement, for participating agencies, an employee receives 25 percent of the value of all unused accumulated sick leave as a mandatory employer contribution into a 401(k) account. Each day of remaining sick leave earned prior to January 1, 2006, may be used to participate in the State's Other Postemployment Benefit Plan (OPEB Plan) to purchase health and life insurance coverage or Medicare supplemental insurance. Any remaining sick leave earned on or after January 1, 2006, is converted to a value (based on the higher of the employee's rate of pay at retirement or the average pay rate of retirees in the previous year) and placed in a defined contribution plan – health reimbursement arrangement administered by Utah Retirement Systems. The Annual Required Contribution (ARC) needed to fund current and future liabilities of the OPEB Plan is provided by charges to agency budgets. Payments of postemployment health and life insurance benefits to retirees are made from the OPEB plan that is administered as a single-employer defined benefit healthcare plan. See Note 17 for additional information about the State's OPEB Plan administered as an irrevocable trust.

For administrative purposes, the State maintains compensated absences pools within the General Fund, Uniform School Fund, and Transportation Fund. The ongoing payments from the pools are provided by charges to agency budgets as benefits are earned. Vacation leave taken as time off is paid from current budgets when used. Payment of leave balances at termination is made from the compensated absences pools. Proprietary funds, Utah Schools for the Deaf and the Blind, and private purpose trust funds of the primary government also participate in the pools and the OPEB Plan, and have no liability for leave or postemployment benefits once their contributions have been made.

Compensatory time for overtime worked may be earned up to a maximum of 80 hours. Any overtime exceeding 80 hours is paid when earned. In accordance with GAAP, compensatory time is expended when the leave is taken in governmental funds, but is expensed when earned for budgetary purposes.

Vacation earnings, sick leave earnings, and termination policies vary among component units and from the primary government's policies, but usually vacation leave is expended when earned and sick leave is expended when used.

Net Assets/Fund Balances

The difference between assets and liabilities is "Net Assets" on the government-wide, proprietary fund, and fiduciary funds financial statements and "Fund Balance" on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as reserved, designated, or unreserved. Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

F. Revenues and Expenditures/Expenses

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's general policy to use restricted resources first. However, the State has some programs that are funded by appropriations from both unrestricted resources and resources required by law to be deposited in a specific subfund for a specific purpose (which may include restricted resources). In those instances, it is the State's policy to expend those resources proportionally based on the amounts appropriated from each source.

Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when entitlement occurs. All federal reimbursement-type grants are recorded as revenues when the related allowable expenditures are incurred and all applicable eligibility requirements are met.

Federal grants include nonmonetary transactions for food and vaccine commodities. Commodities revenue and expenditures are valued at their federally reported value. Commodity inventories at yearend are immaterial. For the fiscal year ended June 30, 2008, the State reported revenue and expenditures of $15.591 million for commodities in the General Fund, and $12.212 million for commodities in the Uniform School Fund (special revenue fund).

Investment Income

Investment income includes interest, dividends and other earnings, and the change in fair value of investments. Negative investment income is reported where the decrease in the fair value of investments due to market conditions exceeded the other components of investment income.

In accordance with state law, interest and dividend income from investments in the Trust Lands permanent fund and the Tobacco Endowment Fund (nonmajor governmental fund) is assigned to and reported directly in the Uniform School Fund and the General Fund, respectively. One half of the applicable income reported in the General Fund is then transferred back into the Tobacco Endowment Fund to increase the principal in the fund as required by state law.

Retirement and Employee Benefit Costs

Most state employees participate in a defined benefit pension plan and/or defined contribution plan administered by Utah Retirement Systems. Contributions collected for the pension plans and contribution plans and the retirement benefits paid are accounted for in the Pension and Other Employee Benefit Trust Funds. All costs for pension, health, and federal social security contributions are reported as expenditures in the appropriate function in governmental fund types or as expenses in applicable proprietary fund types. Pension and other benefit costs are recognized in the fiscal year in which the underlying payroll cost is incurred.

G. Interfund Transactions

Government-wide Financial Statements

Interfund Activity — In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity. However, interfund services, provided and used between different functional categories, have not been eliminated in order to avoid distorting the direct costs and program revenues of the applicable functions. Operating transfers between governmental and business-type activities are reported at the net amount.

Interfund Balances — Interfund receivables and payables have been eliminated from the government-wide Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

Governmental Fund Financial Statements

Interfund Activity — Interfund transactions for goods sold or services rendered for a price approximating their external exchange value, and employee benefit contributions are accounted for as revenues and expenditures/expenses in the funds involved.

Transfers are used to report flows of cash (or other assets) between funds without equivalent flows of assets in return or a requirement for repayment. The State's transfers are based on legislative appropriations or other legal authority. Transfers are presented in Note 13.

NOTE 2. BEGINNING NET ASSET ADJUSTMENTS AND OTHER CHANGES

Beginning Net Assets Adjustments

An adjustment was made to decrease beginning net assets of the University of Utah (major component unit) by $18.674 million for operating lease expenses that were recorded on a cash basis instead of amortizing the payments over the life of the lease.

GASB Statement Changes

GASB Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, was implemented for the fiscal year ended June 30, 2008. As a result, a disclosure related to pledged revenues was added. Implementing this Statement did not result in any other reporting changes. The change is reflected in Note 10.

GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, was early implemented for the fiscal year ended June 30, 2008. This statement requires governments to estimate the components of expected pollution remediation outlays and determine whether those outlays should be accrued as a liability. As a result of implementing this Statement, additional pollution obligations of $2.887 million were reported in the entity-wide Statement of Net Assets, for the fiscal year ended June 30, 2008, in addition to $4.955 million in long-term and $1.384 million in short-term pollution liabilities previously reported. Because the pollution liabilities were previously reported, it was not necessary to restate beginning net assets. The disclosures related to pollution liabilities were added to the government-wide financial statements and reflected in Note 10.

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits and investments for the primary government and its discrete component units are governed by the Utah Money Management Act (*Utah Code*, Title 51, Chapter 7) and rules of the State of Utah Money Management Council. However, the Act also permits certain funds that have a long-term perspective to make investments of a long-term nature, such as equities and bond mutual funds. In the primary government these are the Tobacco Endowment (special revenue fund), Employers' Reinsurance Trust (private purpose trust), and Utah Educational Savings Plan Trust (private purpose trust). Exempt from the Act in the primary government are the Trust Lands (permanent fund), Utah Retirement Systems (pension and other employee benefit trust funds) and State Post-Retirement Benefits Trust Fund (OPEB Plan). The discrete component units exempt from the Act are Utah Housing Corporation, Public Employees Health Program, and the college and universities' endowment funds.

A. PRIMARY GOVERNMENT

Custodial Credit Risk — Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. The Money Management Act requires that deposits be in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the primary government at June 30, 2008, were $361.393 million. Of these, $355.929 million were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

The Act authorizes investments in both negotiable and nonnegotiable deposits of qualified depositories and permitted depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Service or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Student Loan Marketing Association (Sallie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; and shares or certificates in a money market mutual fund as defined in the Act.

Statute allows certain funds acquired by gift, devise or bequest to be invested according to Rule 2 of the Money Management Council. Rule 2 allows the State to invest these funds in any of the above investments or in any of the following, subject to satisfying certain criteria: professionally managed pooled or commingled investment funds, or mutual funds which satisfy certain criteria; common stock, convertible preferred stock or convertible bonds; and corporate bonds or debentures. Currently, the Utah Education Savings Trust is the only entity required to comply with Rule 2.

The primary government's investments at June 30, 2008, are presented below. All investments, except those of the Utah Retirement Systems (pension and other employee benefit trust funds), are presented by investment type and debt securities are presented by maturity. The Utah Retirement Systems are presented consistent with their separately issued financial statements by investment type.

(Table on next page.)

Primary Government Investments
(except pension and other employee benefit trust funds)
(Expressed in Thousands)

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1–5**	**6–10**	**More Than 10**
Debt Securities					
U.S. Treasuries	$ 6,965	$ 2,451	$ 3,263	$ 1,251	$ —
U.S. Agencies	258,625	71,312	186,458	—	855
Corporate Debt	9,209,851	9,208,355	1,496	—	—
Negotiable Certificates of Deposit	360,332	360,332	—	—	—
Money Market Mutual Fund	421,239	421,239	—	—	—
Commercial Paper	386,091	386,091	—	—	—
Bond Mutual Fund *	790,975	—	—	790,975	—
Repurchase Agreements	1,699	1,699	—	—	—
	11,435,777	$10,451,479	$ 191,217	$ 792,226	$ 855
Other Investments					
Equity Securities	48,900				
Equity Mutual Funds Securities:					
Domestic	2,210,979				
International	367,650				
U.S. Unemployment Trust Pool	847,560				
Real Estate Held for Investment Purposes	53,106				
Real Estate Joint Ventures	1,894				
Component Units Investment in Primary Government's Investment Pool	(527,788)				
Total	$14,438,078				

***** At June 30, 2008, the bond mutual fund had an average effective maturity of 7.5 years.

The majority of the primary government's corporate debt securities are variable-rate securities, which adjust periodically to the prevailing market interest rates. Because these securities frequently reprice, interest rate risk is substantially reduced at each periodic reset date. In the table above, variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

In addition, significant funds with a long-term investment perspective have the following mix of investments (percentages are of the fund's total investments). Utah Educational Savings Plan Trust (private purpose trust) – $1.71 billion, 66.2 percent, in domestic equity mutual fund securities; $492.118 million, 19.1 percent, in bond mutual fund; $178.441 million, 6.9 percent, in international equity mutual fund securities; and $200.08 million, 7.8 percent, in the Utah Public Treasurer's Investment Fund. Trust Lands (permanent fund) – $437.308 million, 46.4 percent, in domestic equity mutual fund securities; $264.286 million, 28 percent, in bond mutual fund; $189.209 million, 20 percent, in international equity mutual fund securities; and $52.322 million, 5.6 percent in real estate. State Post-Retirement Benefits Trust (OPEB plan) – $30.304 million, 57.9 percent, in domestic equity mutual fund securities; $20.684 million, 39.5 percent, in bond mutual fund; and $1.332 million, 2.6 percent, in the Utah Public Treasurer's Investment Fund. Tobacco Endowment Fund (special revenue fund) – $26.727 million, 58.4 percent, in domestic equity mutual fund securities; $13.886 million, 30.4 percent, in bond mutual fund; and $5.136 million, 11.2 percent, in the Utah Public Treasurer's Investment Fund.

(Table on next page.)

Utah Retirement Systems Investments
(pension and other employee benefit trust funds)
At December 31, 2007
(Expressed in Thousands)

Investment Type	Fair Value
Debt Securities – Domestic	$ 5,028,312
Debt Securities – International	517,994
Equity Securities – Domestic	5,949,113
Equity Securities – International	3,072,942
Short-term Securities Pools	1,513,490
Mortgage Loans:	
Real Estate Notes	6,845
Real Estate	3,771,930
Private Equity (Venture Capital)	1,149,645
Absolute Return	2,192,308
Guaranteed Investment Contracts	41,399
Equity Securities – Domestic (Pooled)	506,515
Mutual Fund – International	133,380
Investments Held by Broker-dealers Under Securities Lending Program:	
U.S. Government and Agency Securities	601,405
Corporate Debt Securities – Domestic	225,938
Debt Securities – International	55,233
Equity Securities – Domestic	869,764
Equity Securities – International	194,566
Total Investments	25,830,779
Securities Lending Collateral Pool	2,000,979
Total Investments	$ 27,831,758

Interest Rate Risk — Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The primary government's policy for managing interest rate risk is to comply with the State's Money Management Act. Section 51–7–11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270–365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years. Funds that follow Rule 2 of the Money Management Council may not allow the dollar-weighted average maturity of fixed-income securities to exceed ten years.

The Utah Retirement Systems (URS) (pension and other employee benefit trust funds) manage their exposure to fair value loss arising from increasing interest rates by complying with the following policy:

- For domestic debt securities managers, an individual debt securities investment manager's portfolio shall have an effective duration between 75 and 125 percent of the effective duration of the appropriate index.
- The international debt securities investment managers shall maintain an effective duration of their portfolio between 50 and 150 percent of the appropriate index.

Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

The URS compares an investment's effective duration against the Lehman Brothers Aggregate Index for domestic debt securities and the Lehman Brothers Global Aggregate Index for international debt securities. The index range at December 31, 2007, was 3.31 – 5.51 for domestic debt securities and 2.66 – 7.98 for international debt securities. At December 31, 2007, no individual debt security investment manager's portfolio was outside of the policy guidelines. At December 31, 2007, the following tables show the investments by investment type, amount, and the effective weighted duration.

(Table on next page.)

Utah Retirement Systems
(pension and other employee benefit trust funds)
Debt Securities Investments, Domestic
At December 31, 2007
(Expressed in Thousands)

Investment	Defined Benefit Plans Fair Value	Defined Benefit Plans Effective Weighted Duration	Defined Contribution Plans Fair Value	Defined Contribution Plans Effective Weighted Duration	Total All Systems and Plans
Asset-backed Securities	$ 208,774	1.23	$ 27,734	1.86	$ 236,508
Cash and Cash Equivalent Futures	30,512	NA	—	—	30,512
Commercial Mortgage-backed	246,915	4.04	167,453	3.18	414,368
Convertible Equity	2,289	11.49	—	—	2,289
Corporate Bonds	968,002	5.21	203,109	5.24	1,171,111
Corporate Convertible Bonds	172	NA	—	—	172
Fixed Income Derivatives — Futures	3,673	109.39	—	—	3,673
Fixed Income Derivatives — Options	(2,511)	NA	—	—	(2,511)
Fixed Income Futures	(3,673)	NA	—	—	(3,673)
Government Agencies	206,572	3.15	167,705	2.29	374,277
Government Bonds	429,386	7.68	94,723	2.53	524,109
Government Mortgage-backed Securities	2,040,286	3.85	250,809	2.45	2,291,095
Index Linked Government Bonds	95,790	8.25	—	—	95,790
Municipal/Provincial Bonds	1,317	12.51	—	—	1,317
Non-government Backed C.M.O.s	540,529	2.16	—	—	540,529
Other Fixed Income	1,190	1.19	32,742	NA	33,932
Other Options	5,581	NA	—	—	5,581
Swap Liabilities	(7,753)	NA	—	—	(7,753)
Swaps	19,976	NA	—	—	19,976
Treasury Inflation Protected Securities	—	NA	12,962	4.68	12,962
Treasury Notes	—	NA	111,391	1.89	111,391
Total Debt Securities Investments, Domestic	$ 4,787,027	5.28	$ 1,068,628	2.91	$ 5,855,655

Utah Retirement Systems
(pension and other employee benefit trust funds)
Debt Securities Investments, International
At December 31, 2007
(Expressed in Thousands)

Investment	Defined Benefit Plans Fair Value	Defined Benefit Plans Effective Weighted Duration
Convertible Equity	$ (2,289)	11.49
Corporate Bonds	211,001	5.60
Corporate Convertible Bonds	(172)	NA
Fixed Income Derivative — Futures	37,882	6.33
Fixed Income Futures	(37,882)	NA
Government Agencies	1,413	3.99
Government Bonds	337,268	5.89
Index Linked Government Bonds	6,139	7.14
Municipal/Provincial Bonds	18,294	5.29
Non-government Backed C.M.O.s	1,419	0.21
Swaps	154	NA
Total Debt Securities Investments, International	$ 573,227	5.77

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The primary government, with the exception of the Utah Retirement Systems (URS) (pension and other employee benefit trust funds), follows the Money Management Act as previously discussed as its policy for reducing exposure to investment credit risk.

The primary government's rated debt investments as of June 30, 2008, with the exception of URS, were rated by Standard and Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using the Standard and Poor's rating scale. Securities rated less than "A" met the investment criteria at the time of purchase.

Primary Government Rated Debt Investments
(except pension and other employee benefit trust funds)
(Expressed in Thousands)

Debt Investments	Fair Value	Quality Ratings AAA	AA	A	BBB
U.S. Agencies	$ 258,625	$ 257,770	$ —	$ —	$ —
Corporate Debt	$ 9,209,851	$ 437,545	$ 2,342,247	$ 5,774,416	$ 655,643
Negotiable Certificates of Deposit	$ 360,332	$ —	$ 64,844	$ 246,580	$ 48,908
Money Market Mutual Fund	$ 421,239	$ 85,000	$ —	$ —	$ —
Commercial Paper	$ 386,091	$ —	$ —	$ —	$ —
Bond Mutual Fund	$ 790,975	$ —	$ —	$ —	$ —
Repurchase Agreements – Underlying: U.S. Treasuries	$ 1,699	$ —	$ —	$ —	$ —

Continues Below

Debt Investments	Quality Ratings A1 *	Unrated
U.S. Agencies	$ —	$ 855
Corporate Debt	$ —	$ —
Negotiable Certificates of Deposit	$ —	$ —
Money Market Mutual Fund	$ —	$ 336,239
Commercial Paper	$ 386,091	$ —
Bond Mutual Fund	$ —	$ 790,975
Repurchase Agreements – Underlying: U.S. Treasuries	$ —	$ 1,699

***** A1 is Commercial Paper rating

The URS expects its domestic debt securities investment managers to maintain diversified portfolios by sector and by issuer using the following guidelines:

- U.S. government and agency securities — no restriction.
- Total portfolio quality shall maintain a minimum overall rating of "A" (S&P) or equivalent rating.
- Securities with a quality rating of below BBB– are considered below investment grade. No more than 5 percent of an investment manager's assets at market with a single issuer of 1 percent of the total portfolio can be below investment grade.
- Upon approval, a domestic debt securities investment manager may invest up to 10 percent of the portfolio in non-U.S. dollar denominated bonds.
- Upon approval, the international debt securities investment managers may hold up to 25 percent of the market value of their portfolios in securities rated below investment grade (S&P index BBB– or Moody's index Baa3). The remaining assets shall have on average an investment grade rating.

The weighted quality rating average of the domestic debt securities, excluding pooled investments, at December 31, 2007, is AAA and the fair value of below grade investments is $222.892 million or 3.81 percent of the domestic portfolio. The weighted quality rating average of the international debt securities investments, at December 31, 2007, is AA and the fair value of below grade investments is $13.238 million or 2.31 percent of the international portfolio.

The following table presents the URS credit risk ratings as of December 31, 2007:

(Table on next page.)

Utah Retirement Systems
(pension and other employee benefit trust funds)
Debt Securities Investments at Fair Value
At December 31, 2007
(Expressed in Thousands)

Quality Rating	Defined Benefit Plans Domestic	Defined Benefit Plans International	Defined Benefit Plans Total	Defined Contribution Plans Domestic	Total Systems and Plans
AAA	$ 1,685,952	$ 205,724	$ 1,891,676	$ 301,188	$ 2,192,864
AA+	21,928	—	21,928	4,823	26,751
AA	47,754	76,358	124,112	—	124,112
AA–	139,491	31,300	170,791	32,801	203,592
A+	78,027	36,828	114,855	10,311	125,166
A	62,724	67,045	129,769	10,126	139,895
A–	41,071	27,742	68,813	89,223	158,036
BBB+	116,526	72,272	188,798	20,798	209,596
BBB	90,127	35,397	125,524	1,956	127,480
BBB–	80,849	7,322	88,171	17,351	105,522
BB+	7,672	9,923	17,595	4,764	22,359
BB	2,803	2,490	5,293	—	5,293
BB–	2,354	—	2,354	—	2,354
B+	4,036	113	4,149	11,401	15,550
B	19,114	—	19,114	11,763	30,877
B–	10,570	(2,289)	8,281	8,098	16,379
CCC	2,265	—	2,265	—	2,265
NR	129,193	3,002	132,195	8,859	141,054
Total credit risk debt securities	2,542,456	573,227	3,115,683	533,462	3,649,145
U.S. Government and Agencies	2,044,032	—	2,044,032	535,166	2,579,198
Pooled investments	200,539	—	200,539	—	200,539
Total debt securities investments	$ 4,787,027	$ 573,227	$ 5,360,254	$ 1,068,628	$ 6,428,882

Custodial Credit Risk — Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counter party, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The primary government does not have a formal policy for custodial credit risk.

The primary government's investments at June 30, 2008, except those of the Utah Retirement Systems (URS) (pension and other employee benefit trust funds), were held by the State or in the State's name by the State's custodial banks; except $1.699 million of repurchase agreements where the underlying securities were uninsured and held by the investment's counterparty, not in the name of the State.

At December 31, 2007, the URS investments were registered in the name of URS and held by their custodians; however, there is 6.048 million frictional cash and cash equivalents subject to custodial risk in foreign banks held in URS' name, but because it is in foreign banks it is subject to custodial risk. URS does not have an investment policy regarding custodial credit risk for frictional cash in foreign banks. URS also has $10.669 million of investments for which exposure to custodial credit risk could not be determined.

Concentration of Credit Risk — Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Except for the Utah Retirement Systems (URS) (pension and other employee benefit trust funds), the primary government's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the portfolio. Funds that follow Rule 2 of the Money Management Council are limited to investments in equity securities and fixed income corporate securities to no more than 5 percent of all funds in any one issuer and no more than 25 percent of all funds in any one industry. No more than 5 percent of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5 percent of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. The Money Management Council limitations do not apply to securities issued by the U.S. government and its agencies.

The primary government had no debt securities investments at June 30, 2008, with more than 5 percent of the total investments in a single issuer.

The Utah Retirement Systems debt securities investments had no single issuer investments that exceed their diversified portfolio by sector and by issuer using the following guidelines:

- AAA/Aaa Debt Securities — no more than 5 percent of an investment manager's assets at market with a single issuer.
- AA–/Aa3 Debt Securities or higher — no more than 4 percent of an investment manager's assets at market with a single issuer.
- A–/A3 Debt Securities or higher— no more than 3 percent of an investment manager's assets at market with a single issuer.
- BBB–/Baa3 Debt Securities or higher — no more than 2 percent of an investment manager's assets at market with a single issuer.
- For Debt Securities — no individual holding shall constitute more than 10 percent of the market value of outstanding debt of a single issuer with the exception of the U.S. government or its agencies, or collateralized mortgage obligations.
- For Domestic Equity Securities — no individual holdings shall constitute more than 4 percent of the securities of any single issuer. Also, no more than 8 percent of an investment manager's assets shall be invested in the equity or REIT securities of any single issuer at market.
- For International Equity Securities — no more than 8 percent of an investment manager's assets shall be invested in the equity or REIT securities of any single issuer at market.

Foreign Currency Risk — Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The primary government, except the Utah Retirement Systems (URS) (pension and other employee benefit trust funds), does not have a formal policy to limit foreign currency risk.

The Utah Educational Savings Plan Trust (private purpose trust) has $178.441 million and the Trust Lands (permanent fund) has $189.209 million invested in international equity funds. As such, no currency denomination is presented.

The Utah Retirement Systems (URS) (pension and other employee benefit trust funds), expect the international securities investment managers to maintain diversified portfolios by sector and by issuer using the following guidelines:

- International investment managers invest in fixed income instruments and equity instruments of corporations headquartered outside of the United States unless specifically authorized within the investment manager's contract.
- Domestic investment managers are allowed to invest in international corporations traded in American Depository Receipts (ADR).
- Portfolios should be adequately diversified to limit foreign currency and security risk.

Risk of loss arises from changes in currency exchange rates. URS exposure to foreign currency risk is shown below.

(Table on next page.)

Utah Retirement Systems
(pension and other employee benefit trust funds)
Foreign Currency Risk
International Investment Securities at Fair Value
At December 31, 2007
(Expressed in Thousands)

Currency	Defined Benefit Plans Equity	Defined Benefit Plans Debt	Defined Benefit Plans Short Term	Defined Benefit Plans Total	Defined Contribution Plans Equity	Total All Systems and Plans
American Depository Receipts (ADR) US dollars	$ 990,606	$ 2,048	$ —	$ 992,654	$ —	$ 992,654
Argentine peso	—	113	12	125	—	125
Australian dollar	67,532	21,302	(3,961)	84,873	8,169	93,042
Bermuda – US dollar	299	—	—	299	—	299
Brazilian real	954	17,996	—	18,950	—	18,950
British pound sterling	386,516	85,309	(2,518)	469,307	53,428	522,735
Canadian dollar	108,738	17,191	(27)	125,902	1,142	127,044
Cayman Islands dollar	2,569	257	—	2,826	—	2,826
Chilean peso	—	1,389	—	1,389	—	1,389
Chinese yuan renminbi	7,140	—	—	7,140	—	7,140
Danish krone	12,862	2,932	41	15,835	3,458	19,293
Estonian kroon	2,054	—	—	2,054	—	2,054
Euro	651,327	149,861	21,203	822,391	82,467	904,858
Hong Kong dollar	63,588	—	(2,832)	60,756	7,367	68,123
Hungarian forint	—	18,615	—	18,615	—	18,615
Icelandic krona	—	10,291	—	10,291	—	10,291
Indian rupee	7,575	—	—	7,575	—	7,575
Indonesian rupiah	201	—	—	201	—	201
Japanese yen	429,128	76,941	(6,973)	499,096	55,461	554,557
Kazakhstani tenge	—	2,464	—	2,464	—	2,464
Korean won	—	588	—	588	—	588
Malaysian ringgit	4,541	10,524	35	15,100	—	15,100
Mexican peso	—	32,017	621	32,638	—	32,638
New Zealand dollar	698	—	82	780	205	985
Norwegian krone	18,101	—	106	18,207	3,139	21,346
Panamanian balboa	2,376	2,435	—	4,811	—	4,811
Polish zloty	—	16,818	—	16,818	—	16,818
Puerto Rico – US dollar	8,826	—	—	8,826	—	8,826
Qatari riyal	—	699	—	699	—	699
Russian Federation ruble	157	19,084	—	19,241	—	19,241
Singapore dollar	18,708	29,370	134	48,212	1,465	49,677
South African rand	1,109	707	—	1,816	—	1,816
South Korean won	4,635	21,023	—	25,658	—	25,658
Swedish krona	40,307	23,888	104	64,299	8,473	72,772
Swiss franc	162,880	6,093	59	169,032	18,391	187,423
Taiwanese new dollar	13,882	—	30	13,912	—	13,912
Thai baht	3,875	—	—	3,875	—	3,875
Tunisian dinar	—	720	—	720	—	720
United Arab Emirates dirham	—	2,552	—	2,552	—	2,552
Pooled International Investments	—	—	—	0	146,539	146,539
Total Securities Subject to Foreign Currency Risk	$ 3,011,184	$ 573,227	$ 6,116	$ 3,590,527	$ 389,704	$ 3,980,231

B. **COMPONENT UNITS**

Custodial Credit Risk — Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the component unit's deposits may not be recovered.

The component units follow the Money Management Act by making deposits only in qualified financial institutions in accordance with the Act. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the component units at June 30, 2008, were $191.983 million. Of these, $181.247 million were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The component units follow the applicable investing criteria described above for the primary government, with the exception of Utah Housing Corporation and Public Employees Health Program which are exempt from the Money Management Act.

College and university funds from gifts, private grants, and the corpus of funds functioning as endowments are invested according to the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and State Board of Regents Rule 541, Management and Reporting of Institutional Investments (Rule 541) or separate endowment investment policies which have been approved by their Board of Trustees and by the Board of Regents. The UPMIFA and Rule 541 allow the Entity to invest endowment funds (including gifts, devises, or bequests of property of any kind from any source) in any investments allowed by the Money Management Act or any of the following subject to satisfying certain criteria: professionally managed pooled or commingled investment funds registered with the Securities and Exchange Commission or the Comptroller of the Currency (e.g., mutual funds); professionally managed pooled or commingled investment funds created under 501(f) of the Internal Revenue Code which satisfy the conditions for exemption from registration under Section 3(c) of the Investment Company Act of 1940; any investment made in accordance with the donor's directions in a written instrument; and any alternative investment funds that derive returns primarily from high yield and distressed debt (hedged or non-hedged), private capital (including venture capital, private equity, both domestic and international), natural resources, and private real estate assets or absolute return and long/short hedge funds.

The component units' investments at June 30, 2008, are presented below.

Component Units Investments
(Expressed in Thousands)

		Investment Maturities (in years)				
Investment Type	**Fair Value**	**Less Than 1**	**1–5**	**6–10**	**11–20**	**More Than 20**
Debt Securities						
U.S. Treasuries	$ 519,545	$ 373,704	$ 144,191	$ 539	$ 1,111	$ —
Government National Mortgage Association	10	—	—	—	10	—
U.S. Agencies	735,996	398,659	88,618	11,071	196,414	41,234
Corporate Debt	159,241	81,641	50,822	21,341	3,959	1,478
Commercial Paper	9,436	9,436	—	—	—	—
Money Market Mutual Funds	260,630	260,630	—	—	—	—
Negotiable Certificates of Deposit	2,009	1,557	452	—	—	—
Municipal/Public Bonds	6,519	—	1,443	3,166	1,819	91
Repurchase Agreements	45,818	45,818	—	—	—	—
Asset-backed Securities	79	—	79	—	—	—
Guaranteed Investment Contracts	246,255	89,391	15,854	5,724	135,286	—
Bond Mutual Funds	157,767	—	8,782	147,058	1,927	—
Securities Lending Cash Collateral Pool	12,559	12,559	—	—	—	—
Utah Public Treasurer's Investment Fund	527,788	527,788	—	—	—	—
	2,683,652	$ 1,801,183	$ 310,241	$ 188,899	$ 340,526	$ 42,803
Other Investments						
Equity Securities:						
Domestic	44,736					
International	2,592					
Equity Mutual Funds Securities:						
Domestic	404,236					
Mutual Fund – U.S. Agencies	1					
Real Estate Held for Investment Purposes	1,268					
Total	$ 3,136,485					

Interest Rate Risk — Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The component units' policy for managing interest rate risk is the same as described above for the primary government.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The component units' policy for reducing exposure to investment credit risk is the same as described above for the primary government. The component units' debt investments as of June 30, 2008, were rated by Standard and Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Component Units Rated Debt Investments
(Expressed in Thousands)

Debt Investments	Fair Value	Quality Ratings AAA	AA	A	BBB
U.S. Agencies	$ 735,996	$ 735,036	$ 52	$ —	$ —
Corporate Debt	$ 159,241	$ 9,812	$ 19,449	$ 79,475	$ 40,021
Commercial Paper	$ 9,436	$ —	$ —	$ —	$ —
Money Market Mutual Funds	$ 260,630	$ 211,428	$ —	$ —	$ —
Negotiable Certificates of Deposit	$ 2,009	$ —	$ —	$ 204	$ —
Municipal/Public Bonds	$ 6,519	$ 6,519	$ —	$ —	$ —
Asset-backed Securities	$ 79	$ —	$ —	$ 79	$ —
Guaranteed Investment Contracts	$ 246,255	$ —	$ —	$ —	$ —
Bond Mutual Funds	$ 157,767	$ 32	$ 3,770	$ —	$ —
Securities Lending Cash Collateral Pool	$ 12,559	$ —	$ —	$ —	$ —
Utah Public Treasurer's Investment Fund	$ 527,788	$ —	$ —	$ —	$ —
Repurchase Agreements – Underlying:					
U.S. Agencies	$ 7,038	$ 1,513	$ —	$ —	$ —
Money Market Mutual Funds	$ 38,780	$ —	$ —	$ —	$ —

Continues Below

Debt Investments	Quality Ratings BB	B	A1 *	Unrated
U.S. Agencies	$ —	$ —	$ —	$ 908
Corporate Debt	$ 1,538	$ 872	$ —	$ 8,074
Commercial Paper	$ —	$ —	$ 9,436	$ —
Money Market Mutual Funds	$ —	$ —	$ —	$ 49,202
Negotiable Certificates of Deposit	$ —	$ —	$ —	$ 1,805
Municipal/Public Bonds	$ —	$ —	$ —	$ —
Asset-backed Securities	$ —	$ —	$ —	$ —
Guaranteed Investment Contracts	$ —	$ —	$ —	$ 246,225
Bond Mutual Funds	$ 31	$ 321	$ —	$ 153,613
Securities Lending Cash Collateral Pool	$ —	$ —	$ —	$ 12,559
Utah Public Treasurer's Investment Fund	$ —	$ —	$ —	$ 527,788
Repurchase Agreements – Underlying:				
U.S. Agencies	$ —	$ —	$ —	$ 5,525
Money Market Mutual Funds	$ —	$ —	$ —	$ 38,780

***** A1 is Commercial Paper rating

Custodial Credit Risk — Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counter party, the component units will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The component units do not have a formal policy for custodial credit risk.

The various component units' investments at June 30, 2008, were held by the component unit or in the name of the component unit by the component unit's custodial bank or trustee, except the following which were uninsured, were not registered in the name of the component unit, and were held by (expressed in thousands):

Counterparty		
U.S. Treasuries	$	474,906
U.S. Agencies	$	397,059
Corporate Debt	$	16
Repurchase Agreements	$	7,420
Equity Mutual Funds Securities – Domestic	$	5,439
Counterparty's Trust Department or Agent		
U.S. Treasuries	$	33,731
U.S. Agencies	$	73,018
Corporate Debt	$	73,159
Repurchase Agreements	$	37,601
Equity Securities – Domestic	$	4,295

Concentration of Credit Risk — Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Except for Utah Housing Corporation and Public Employees Health Program, the component units' policy for reducing this risk of loss is the same as described above for the primary government for non-endowment funds. For college and university endowments funds, their policy for reducing this risk of loss is to follow the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and State Board of Regents Rule 541, Management and Reporting of Institutional Investments (Rule 541) or separate endowment investment policies which have been approved by their Board of Trustees and by the Board of Regents.

The Utah Housing Corporation places no limit on the amount the Corporation may invest in any one issuer. More than five percent of the Corporation's investments are in the Federal National Mortgage Association, Trinity Guaranteed Investment Contracts, DEPFA Guaranteed Investment Contracts, and CDC Guaranteed Investment Contracts. These investments are 15.37 percent, 10.26 percent, 9.41 percent, and 7.02 percent, respectively, of the Corporation's total investments.

Utah State University held more than five percent of total investments in securities of the Federal Home Loan Bank and the Federal National Mortgage Association. These investments represent 16.7 percent and 6.5 percent, respectively, of the University's total investments.

Public Employees Health Program had more than five percent of its investments in U.S. Government and U.S. Government Agency securities.

Foreign Currency Risk — Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.
The component units do not have a formal policy to limit foreign currency risk.

C. **Securities Lending**

The Utah Retirement Systems (pension and other employee benefit trust funds) and the Public Employees Health Program (component unit) participate in security lending programs as authorized by their Boards. Under these programs, securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and irrevocable bank letters of credit equal to approximately 102 percent of the market value of the domestic securities on loan and 105 percent of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. For both state entities, their custodial bank is the agent for its securities lending program. Securities under loan are maintained in the financial records, and corresponding liabilities are recorded for market value of the collateral received.

At yearend, neither the Utah Retirement Systems nor Public Employees Health Program had any credit risk exposure to borrowers because the collateral exceeded the amount borrowed. The securities on loan at yearend for the entities were $1.947 billion and $12.216 million, respectively, and the collateral received for those securities on loan was $2.001 billion and $12.216 million, respectively. Under the terms of the lending agreement, both state entities are indemnified against loss should the lending agent be unable to recover borrowed securities and distributions due to borrower insolvency or failure of the lending agent to properly evaluate the creditworthiness of the borrower. In addition, they are indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis. All securities loaned can be terminated on demand by either the state entity or the borrower. Cash collateral is invested in the lending agent's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20 percent of the invested cash collateral is to be available each business day and that the dollar weighted average maturity of holdings should not exceed 60 days. The relationship between the maturities of the short-term investment pool and each of the state entities' loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the state entities cannot determine. Since the securities lending collateral is in a pool maintained by the custodial bank, the state entities do not have the ability to pledge or sell the securities, and it is not necessary to report the total income and expenses of securities lending.

D. **Derivative Financial Instruments**

Utah Retirement Systems

The Utah Retirement Systems (URS) (pension and other employee benefit trust funds) invests in derivative financial investments as authorized by Board policy. Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from, the performance of some agreed upon benchmark. At December 31, 2007, URS had four types of derivative financial investments: futures, currency forwards, options, and swaps.

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded), thereby minimizing URS' credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included with trading account securities gains (losses) in the Statement of Changes in Net Assets. At December 31, 2007, URS investments had the following futures balances (expressed in millions):

		Value Covered By Contract
Long—cash and cash equivalent futures	$	400.176
Long—equity futures	$	2,015.513
Long—debt securities futures	$	310.150
Short—debt securities futures	$	(268.596)

Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency exchange rate on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in net realized gains or losses on foreign currency related transactions. At December 31, 2007, URS investments included the following currency forwards balances (expressed in billions):

Currency forwards (*pending foreign exchange purchases)*	$	1.074
Currency forwards (*pending foreign exchange sales)*	$	(1.078)

Options represent or give buyers the right, but not the obligation, to buy or sell an asset at a preset price over a specific period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, URS receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, URS pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. At December 31, 2007, URS investments had the following options balances (expressed in thousands):

	Value Covered By Contract	
Cash and cash equivalent purchased call options	$	(503)
Cash and cash equivalent purchased put options	$	(27)

Swaps represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. At the end of the year, URS had two different types of swap arrangements: interest rate swaps and credit default swaps. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counter party who, in turn, agrees to make return interest payments that float with some reference rate. The interest rate swaps allowed URS to effectively convert their long-term variable interest rate credit facility loans into fixed interest rate loans, thereby mitigating some of their interest rate risk. The credit default swaps protect the rental cash flows on one of URS real estate investments in case the major tenant defaults on its lease contract. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Net Assets. At December 31, 2007, URS investments had the following swap market value balances:

Utah Retirement Systems (pension and other employee benefit trust funds)
Interest Rate Swaps
December 31, 2007
(Expressed in Millions)

	Outstanding Notational Amount*	Interest Rate**	Maturity Date	Fair Value
Interest Rate Swaps				
Interest Rate Swaps	$ 1,292.889	4.057 – 5.464 % LIBOR	2008–2021	$ (47.322)
Credit Default Swaps				
Morgan Stanley Credit Default Swaps	$ 111.000		9/29/2008	$ (0.594)

* Base used to calculate interest
** London Interbank Offered Rate (LIBOR)

Utah Housing Corporation

The following are disclosures for derivative financial instruments held by Utah Housing Corporation (major component unit).

Objective — In order to protect against the potential of rising interest rates, the Corporation has entered into 76 separate pay-fixed, receive-variable interest rate swaps and one Interest Rate Cap Agreement as of June 30, 2008. The cost of these swaps is less than what the Corporation would have paid to issue fixed rate debt. The Corporation's swaps are all similar in nature and summary information is included in this report. More detailed information about each swap is included in the Corporation's separately issued financial statements.

Terms, Fair Values, and Credit Risk — The terms, including the fair values of the outstanding swaps as of June 30, 2008, are summarized below. The notional amounts of the swaps matched the principal amounts of the associated debt at the time of issuance. Except as discussed under rollover risk, the Corporation's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

Utah Housing Corporation
Interest Rate Swap and Cap Agreements
June 30, 2008
(Expressed in Thousands)

Outstanding Notational Amount	Issue Dates	Fixed Rate Paid by the Corporation	Variable Rate Received from Counterparty	Fair Values	Termination Dates
Interest Rate Swap Agreements					
$ 565,385	2000–2006	3.939 % to 5.610 %	SIFMA* plus .27 %	$ (40,476)	2012–2030
124,000	2007	3.730 % to 4.253 %	SIFMA* plus .11 %	(6,042)	2026–2030
37,450	2008	3.713 % to 4.000 %	SIFMA* plus .08 %	(349)	2028–2032
40,455	2000–2006	4.640 % to 7.760 %	LIBOR** plus .15 %	(5,174)	2008–2029
25,610	2008	5.301 % to 5.545 %	LIBOR** plus .01 %	(1,528)	2038
$ 792,900				$ (53,569)	
Interest Rate Cap Agreements					
$ 1,660	2005	1.02 %	Excess of SIFMA * over 5.73 %	$ (106)	2027

* Securities Industry and Financial Markets Association
** London Interbank Offered Rate

Swap Contract Terminations — On July 1, 2007, the Corporation exercised early call options on six swap contracts. As a result, swap contracts with a total notional amount of $18.35 million were terminated, resulting in a gain of $36 thousand, which is offset against interest expense on the Statement of Revenues, Expense, and Changes in Net Assets.

Fair Values — The fair values of swaps are a function of market interest rates and the remaining term on the swap contracts. The fair values of the swap contracts were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risk — The Corporation executes swap transactions with two counterparties, Lehman Brothers Financial Products, Inc. and Lehman Brothers Derivative Products, Inc. Both counterparties are rated AAA/Aaa.

Basis Risk — The Corporation's tax-exempt variable-rate bond coupon payments are equivalent to the BMA rate. Its taxable variable-rate bond coupon payments are equivalent to the LIBOR rate. The Corporation is therefore not exposed to basis risk except as disclosed below under Tax/Cross-over Risk.

Tax / Cross-over Risk — Twenty-seven of the Corporation's SIFMA based swaps are exposed to basis risk should Congress or other federal branches of government propose or pass legislation (a "Tax Event"), that causes the relationship between LIBOR and SIFMA to exceed 75 percent for a continuous period of 180 days. If both of these events occur the result would be that the swap provider would pay the Corporation 68 percent of the LIBOR rate regardless of what the SIFMA rate is. In addition, various of the Corporation's SIFMA based Cross-over Swaps are also exposed to basis risk if the LIBOR rate is 3.5 percent or greater and in some cases 4 percent or greater. When the LIBOR rate is greater than 3.5 or 4 percent, the provider will pay the Corporation 68 percent of the LIBOR rate regardless of what the SIFMA rate is. As of June 30, 2008, no "Tax Event" or "Cross-over Event" has occurred.

Termination Risk — The Corporation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract.

Rollover Risk — The Corporation is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, or in the case of the termination option, the Corporation will not realize the synthetic rate offered by the swaps on the underlying debt issues. As of June 30, 2008, the Corporation's swap termination dates ranged from 0 to 24.5 years prior to the maturity dates of the associated debt.

NOTE 4. INVESTMENT POOL

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF) investment pool. The PTIF is available for investment of funds administered by any Utah public treasurer. Participation is not required and no minimum balance or minimum/maximum transaction is required. State agencies and funds that are authorized to earn interest also invest in the PTIF as an internal investment pool. No separate report as an external investment pool has been issued for the PTIF.

The PTIF is not registered with the SEC as an investment company and is not rated. The PTIF is authorized and regulated by the Utah Money Management Act, (*Utah Code* Title 51, Chapter 7). The Act establishes the Money Management Council, which oversees the activities of the State Treasurer and the PTIF. The Act lists the investments that are authorized which are high-grade securities and, therefore, minimizes credit risk except in the most unusual and unforeseen circumstances.

Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated to participants on the ratio of the participant's share to the total funds in the PTIF based on the participant's average daily balance. The PTIF allocates income and issues statements on a monthly basis. Twice a year, at June 30 and December 31, which are the accounting periods for public entities, the investments are valued at fair value and participants are informed of the fair value valuation factor that enables them to adjust their statement balances to fair value.

The PTIF condensed financial statements, inclusive of external and internal participants along with the portfolio statistics for the fiscal year ended June 30, 2008, are as follows:

Public Treasurer's Investment Fund
Statement of Net Assets
June 30, 2008
(*Expressed in Thousands*)

Assets	
Cash and Cash Equivalents	$ 640,652
Investments	10,001,842
Interest Receivable	40,522
Total Assets	$ 10,683,016
Net Assets Consist of:	
External Participant Account Balances	$ 6,484,232
Internal Participant Account Balances:	
Primary Government	3,684,179
Component Units	527,846
Undistributed Reserves and Unrealized Gains/Losses	(13,241)
Net Assets	$ 10,683,016
Participant Account Balance Net Asset Valuation Factor	.996952

Public Treasurer's Investment Fund
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2008
(*Expressed in Thousands*)

Additions	
Pool Participant Deposits	$ 11,260,650
Investment Income:	
Investment Earnings	470,822
Fair Value Increases (Decreases)	(30,583)
Total Investment Income	440,239
Less Administrative Expenses	(255)
Net Investment Income	439,984
Total Additions	11,700,634
Deductions	
Pool Participant Withdrawals	10,606,104
Earnings Distributions	465,671
Total Deductions	11,071,775
Net Increase From Operations	628,859
Net Assets	
Beginning of Year	10,054,157
Net Assets – End of Year	$ 10,683,016

Public Treasurer's Investment Fund
Portfolio Statistics

June 30, 2008

	Range of Yields	Weighted Average Maturity
Money Market Mutual Fund	2.10 % – 2.58 %	1.00 days
Certificates of Deposit – Negotiable	2.15 % – 3.45 %	64.10 days
Certificates of Deposit – Nonnegotiable	2.50 % – 2.93 %	82.40 days
U.S. Agencies	2.26 % – 5.20 %	512.72 days
Corporate Bonds and Notes	2.35 % – 5.40 %	53.29 days
Commercial Paper	2.47 % – 4.98 %	17.47 days

June 30, 2008

	Weighted Average Yield	Average Adjusted Maturity
Total Investment Fund	3.03 %	61.27 days

Deposits and Investments

The following disclosure of deposits and investments is for the PTIF, which includes external and internal participants. These assets are also included in the Note 3 disclosures of deposits and investments for the primary government. To avoid duplication, some of the detailed information in Note 3 has not been repeated in this note.

Custodial Credit Risk — Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the PTIF's deposits may not be recovered. The PTIF follows the Money Management Act by making deposits only in qualified financial institutions in accordance with the Act.

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the PTIF at June 30, 2008, were $58.021 million. Of those, $57.221 million were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The PTIF follows the Money Management Act by investing only in securities authorized in the Act. See Note 3 for information on authorized investments.

The PTIF investments at June 30, 2008, are presented below.

Public Treasurer's Investment Fund Investments
(Expressed in Thousands)

		Investment Maturities (in years)	
Investment Type	Fair Value	Less Than 1	1–5
Debt Securities			
U.S. Agencies	$ 255,115	$ 70,427	$ 184,688
Corporate Bonds and Notes	9,196,073	9,196,073	—
Negotiable Certificates of Deposit	360,331	360,331	—
Money Market Mutual Fund	420,000	420,000	—
Commercial Paper	374,631	374,631	—
	$ 10,606,150	$ 10,421,462	$ 184,688

The majority of the PTIF's U.S. agencies and corporate debt securities are variable-rate securities, most of which reset every three months to the market interest rate. Because these securities frequently reprice to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date. In the table above, variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

Interest Rate Risk — Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The PTIF's policy for managing interest rate risk is to comply with the State's Money Management Act. See Note 3 for information on requirements of the Act related to interest rate risk.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The PTIF follows the Money Management Act as its policy for reducing exposure to investment credit risk. The PTIF's rated debt investments as of June 30, 2008, were rated by Standard and Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Public Treasurer's Investment Fund Rated Debt Investments
(Expressed in Thousands)

Rated Debt Investments	Fair Value	Quality Ratings AAA	AA	A	BBB
U.S. Agencies	$ 255,115	$ 255,115	$ —	$ —	$ —
Corporate Bonds and Notes	$ 9,196,073	$ 437,546	$ 2,339,753	$ 5,765,999	$ 652,775
Negotiable Certificates of Deposit	$ 360,331	$ —	$ 64,844	$ 246,580	$ 48,907
Money Market Mutual Fund	$ 420,000	$ 85,000	$ —	$ —	$ —
Commercial Paper	$ 374,631	$ —	$ —	$ —	$ —

Continues Below

Rated Debt Investments	Quality Ratings A1 *	Not Rated
U.S. Agencies	$ —	$ —
Corporate Bonds and Notes	$ —	$ —
Negotiable Certificates of Deposit	$ —	$ —
Money Market Mutual Fund	$ —	$ 335,000
Commercial Paper	$ 374,631	$ —

***** A1 is Commercial Paper rating

Concentration of Credit Risk — Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The PTIF's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5 percent of the total dollar amount held in the portfolio. The Money Management Council limitations do not apply to securities issued by the U.S. government and its agencies. The PTIF had no debt securities investments at June 30, 2008, with more than 5 percent of the total investments in a single issuer.

(Notes continue on next page.)

NOTE 5. RECEIVABLES

Receivables as of June 30, 2008, consisted of the following (in thousands):

	Accounts Receivable					
	Federal	**Customer**	**Other**	**Interest**	**Taxes**	**Notes/ Mortgages**
Governmental Activities:						
General Fund	$ 298,554	$ 199,065	$ 2,979	$ 31	$ 249,087	$ 2,716
Education Fund	—	2,095	—	—	617,648	—
Uniform School Fund	29,842	15	—	—	—	8,216
Transportation Fund	68,392	9,467	2,711	—	50,190	353
Transportation Investment Fund	362	47	—	—	20,174	—
Trust Lands	—	—	18,755	2,342	—	2,400
Nonmajor Funds	—	8,996	—	49	—	—
Internal Service Funds	—	7,568	—	—	—	694
Adjustments:						
Fiduciary Funds	—	—	417	—	—	—
Total Receivables	397,150	227,253	24,862	2,422	937,099	14,379
Less Allowance for Uncollectibles:						
General Fund	—	(50,698)	—	—	(16,614)	(1,207)
Education Fund	—	—	—	—	(83,220)	—
Transportation Fund	—	—	(329)	—	(1,941)	—
Transportation Investment Fund	—	—	—	—	(1,593)	—
Receivables, net	$ 397,150	$ 176,555	$ 24,533	$ 2,422	$ 833,731	$ 13,172
Current Receivables	$ 397,150	$ 153,815	$ 6,519	$ 2,422	$ 783,632	$ 3,339
Noncurrent Receivables	—	22,740	18,014	—	50,099	9,833
Total Receivables, net	$ 397,150	$ 176,555	$ 24,533	$ 2,422	$ 833,731	$ 13,172
Business-type Activities:						
Student Assistance Programs	$ 10,136	$ 1,292	$ —	$ 31,176	$ —	$ 2,043,935
Unemployment Compensation	22	63,602	—	—	—	—
Water Loan Programs	—	447	—	9,774	—	553,051
Nonmajor Funds	1,262	26,398	—	4,693	—	374,919
Total Receivables	11,420	91,739	0	45,643	0	2,971,905
Less Allowance for Uncollectibles:						
Student Assistance Programs	—	—	—	—	—	(3,322)
Unemployment Compensation	—	(8,415)	—	—	—	—
Receivables, net	$ 11,420	$ 83,324	$ 0	$ 45,643	$ 0	$ 2,968,583

Accounts receivable balances are an aggregation of amounts due from the federal government, customers, and others. Receivables from customers include charges for services to local governments, fees and fines issued by the courts and corrections, employer contributions for unemployment benefits, and receivables as a result of overpayments to individuals receiving state assistance.

Receivables for fiduciary funds listed above represent amounts due from fiduciary funds that were reclassified as external receivables on the government-wide Statement of Net Assets.

Aggregated receivables for component units at June 30, 2008, were $1.87 billion for major component units and $62.591 million for nonmajor component units, net of an allowance for doubtful accounts of $137.433 million and $5.157 million, respectively.

NOTE 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2008, consisted of the following (in thousands):

	Salaries/ Benefits	Service Providers	Vendors/ Other	Government	Tax Refunds	Interest	Total
Governmental Activities:							
General Fund	$ 47,999	$ 206,346	$ 38,930	$ 111,050	$ 10,133	$ —	$ 414,458
Education Fund	—	—	—	—	27,760	—	27,760
Uniform School Fund	2,144	2,221	15,196	19,682	—	—	39,243
Transportation Fund	5,174	11	138,337	77,406	1,103	—	222,031
Nonmajor Funds	90	—	35,672	891	—	28,473	65,126
Internal Service Funds	5,378	9	22,752	—	—	5	28,144
Adjustments:							
Fiduciary Funds	—	—	—	1,221	—	—	1,221
Other	—	—	—	—	—	966	966
Total Governmental Activities	$ 60,785	$ 208,587	$ 250,887	$ 210,250	$ 38,996	$ 29,444	$ 798,949
Business-type Activities:							
Student Assistance Programs	$ 1,193	$ —	$ 6,953	$ 1,284	$ —	$ 8,172	$ 17,602
Unemployment Compensation	—	8,371	—	555	—	—	8,926
Water Loan Programs	—	—	428	—	—	—	428
Nonmajor Funds	1,799	—	14,184	111	—	297	16,391
Adjustments:							
Fiduciary Funds	—	—	—	192	—	—	192
Total Business-type Activities	$ 2,992	$ 8,371	$ 21,565	$ 2,142	$ 0	$ 8,469	$ 43,539

Accounts payable and accrued liability balances are an aggregation of amounts due to: (***1***) state employees for salaries/benefits; (***2***) service providers for childcare, job services and health services; (***3***) vendors and miscellaneous suppliers; (***4***) local and federal governments for services; (***5***) individuals and others as a result of tax overpayments; and (***6***) interest due on bonds and other obligations.

Adjustments for fiduciary funds listed above represent amounts due to fiduciary funds that were reclassified as external payables on the government-wide Statement of Net Assets. Other adjustments are due to differences in the presentation and the basis of accounting between the fund financial statements and the government-wide Statement of Net Assets.

(Notes continue on next page.)

NOTE 7. INTERFUND BALANCES AND LOANS

Interfund Balances

Interfund balances at June 30, 2008, consisted of the following (in thousands):

Due to General Fund from:	
Uniform School Fund	$ 298
Transportation Fund	1,041
Trust Lands Fund	59
Nonmajor Governmental Funds	3,687
Unemployment Compensation Fund	9,030
Nonmajor Enterprise Funds	17,464
Internal Service Funds	4,549
Fiduciary Funds	46
Total due to General Fund from other funds	$ 36,174
Due to Uniform School Fund from:	
General Fund	$ 607
Transportation Fund	1
Nonmajor Governmental Funds	2
Internal Service Funds	60
Total due to Uniform School Fund from other funds	$ 670
Due to Transportation Fund from:	
General Fund	$ 108
Uniform School Fund	3
Transportation Investment Fund	3,279
Nonmajor Governmental Funds	4
Internal Service Funds	1,669
Total due to Transportation Fund from other funds	$ 5,063
Due to Trust Lands Fund from Nonmajor Enterprise Funds	$ 16,214
Due to Nonmajor Governmental Funds from:	
General Fund	$ 2,434
Transportation Fund	42
Nonmajor Governmental Funds	5,069
Nonmajor Enterprise Funds	16
Internal Service Funds	209
Fiduciary Funds	361
Total due to Nonmajor Governmental Funds from other funds	$ 8,131
Due to Water Loan Programs from:	
General Fund	$ 223
Trust Lands Fund	47
Nonmajor Governmental Funds	83
Total due to Water Loan Programs from other funds	$ 353
Due to Nonmajor Enterprise Funds from:	
General Fund	$ 556
Transportation Fund	261
Trust Lands	66
Nonmajor Governmental Funds	14,371
Water Loan Programs	22
Internal Service Funds	6
Total due to Nonmajor Enterprise Funds from other funds	$ 15,282
Due to Internal Service Funds from:	
General Fund	$ 30,456
Uniform School Fund	225
Transportation Fund	5,498
Nonmajor Governmental Funds	1,550
Nonmajor Enterprise Funds	346
Internal Service Funds	24
Fiduciary Funds	10
Total due to Internal Service Funds from other funds	$ 38,109
Due to Fiduciary Funds from:	
General Fund	$ 1,112
Uniform School Fund	21
Transportation Fund	78
Nonmajor Governmental Funds	10
Nonmajor Enterprise Funds	192
Total due to Fiduciary Funds from other funds	$ 1,413
Total Due to/Due froms	$ 121,409

These balances resulted from the time lags between the dates that: (***1***) interfund goods and services are provided or reimbursable expenditures occur; (***2***) transactions are recorded in the accounting system; and (***3***) payments between funds are made.

Interfund Loans

Interfund loans at June 30, 2008, consisted of the following (in thousands):

Payable to General Fund from Internal Service Funds	$ 38,884
Payable to Uniform School Fund from Internal Service Funds	121
Total Interfund Loans Receivable/Payable	$ 39,005

The interfund loans receivable/payable balances consist of revolving loans with Internal Service Funds. The balance payable to the General Fund from Internal Service Funds of $38.884 million includes $22.237 million that is not expected to be repaid within one year.

(Notes continue on next page.)

NOTE 8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows (in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital Assets Not being Depreciated:				
Land and Related Assets	$ 849,445	$ 71,106	$ (12,103)	$ 908,448
Infrastructure	7,858,755	174,140	(56,219)	7,976,676
Construction-In-Progress	1,214,211	811,017	(467,882)	1,557,346
Total Capital Assets Not being Depreciated	9,922,411	1,056,263	(536,204)	10,442,470
Capital Assets being Depreciated:				
Buildings and Improvements	1,216,669	241,630	(1,161)	1,457,138
Infrastructure	33,921	13,319	(25)	47,215
Machinery and Equipment	485,215	51,543	(24,680)	512,078
Total Capital Assets being Depreciated	1,735,805	306,492	(25,866)	2,016,431
Less Accumulated Depreciation for:				
Buildings and Improvements	(427,183)	(33,949)	197	(460,935)
Infrastructure	(8,805)	(1,389)	6	(10,188)
Machinery and Equipment	(343,367)	(33,666)	16,537	(360,496)
Total Accumulated Depreciation	(779,355)	(69,004)	16,740	(831,619)
Total Capital Assets being Depreciated, Net	956,450	237,488	(9,126)	1,184,812
Capital Assets, Net	$10,878,861	$1,293,751	$ (545,330)	$11,627,282
Business-type Activities:				
Capital Assets Not being Depreciated:				
Land and Related Assets	$ 10,035	$ 3,256	$ (75)	$ 13,216
Construction-In-Progress	990	6,823	(6,514)	1,299
Total Capital Assets Not being Depreciated	11,025	10,079	(6,589)	14,515
Capital Assets being Depreciated:				
Buildings and Improvements	48,251	6,731	(95)	54,887
Infrastructure	304	—	—	304
Machinery and Equipment	15,074	709	(207)	15,576
Total Capital Assets being Depreciated	63,629	7,440	(302)	70,767
Less Accumulated Depreciation for:				
Buildings and Improvements	(10,469)	(1,347)	56	(11,760)
Infrastructure	(61)	(6)	—	(67)
Machinery and Equipment	(11,662)	(979)	207	(12,434)
Total Accumulated Depreciation	(22,192)	(2,332)	263	(24,261)
Total Capital Assets being Depreciated, Net	41,437	5,108	(39)	46,506
Capital Assets, Net	$ 52,462	$ 15,187	$ (6,628)	$ 61,021

Construction-in-progress of governmental activities includes amounts for buildings the State is constructing for colleges and universities (component units) that are funded by state appropriations or state bond proceeds. As the buildings are completed, the applicable amounts are deleted from construction-in-progress of governmental activities and "transferred" to the colleges and universities. For fiscal year 2008, $55.081 million of buildings were completed for colleges and universities. On the government-wide statement of activities, the building "transfers" are reported as higher education expenses of governmental activities and as program revenues of component units.

Depreciation expense of governmental activities was charged to functions as follows (in thousands):

General Government	$ 8,421
Human Services and Youth Corrections	5,135
Corrections, Adult	5,332
Public Safety	4,382
Courts	5,521
Health and Environmental Quality	2,132
Employment and Family Services	2,174
Natural Resources	8,429
Community and Culture	442
Business, Labor, and Agriculture	892
Public Education	571
Transportation	8,161
Depreciation on capital assets of the State's internal service funds is charged to the various functions based on their usage of services provided	17,412
Total	$ 69,004

Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands):

	Utah Housing Corporation	Public Employees Health Program	University of Utah	Utah State University	Nonmajor Component Units	Total
Capital Assets Not being Depreciated:						
Land and Other Assets	$ 1,472	$ —	$ 66,515	$ 17,066	$ 76,569	$ 161,622
Construction-In-Progress	—	—	190,652	22,475	28,712	241,839
Total Capital Assets Not being Depreciated	1,472	0	257,167	39,541	105,281	403,461
Capital Assets being Depreciated:						
Building and Improvements	5,064	—	1,359,854	567,648	1,143,900	3,076,466
Infrastructure	—	—	162,435	—	27,816	190,251
Machinery and Equipment	1,661	3,240	717,392	184,455	177,828	1,084,576
Total Capital Assets being Depreciated	6,725	3,240	2,239,681	752,103	1,349,544	4,351,293
Less Total Accumulated Depreciation	(1,565)	(2,648)	(1,148,808)	(318,392)	(522,393)	(1,993,806)
Total Capital Assets being Depreciated, Net	5,160	592	1,090,873	433,711	827,151	2,357,487
Discretely Presented Component Units – Capital Assets, Net	$ 6,632	$ 592	$ 1,348,040	$ 473,252	$ 932,432	$ 2,760,948

(Continues on next page.)

The State had long-term construction project commitments totaling $181.434 million at June 30, 2008. The following construction projects have remaining commitments and represent reservations of fund balance in the Capital Projects Funds (nonmajor governmental funds):

Capital Projects Fund
Construction Project Commitments
(Expressed in Thousands)

Project	Description	Remaining Construction Commitment
05225750	U of U – Hospital Expansion	$ 39,775
06281150	St. George Courthouse	17,244
05174250	UBATC Vernal Branch Building	16,884
02156050	State Capitol Restoration	11,916
07032730	SUU – Campus Housing	11,609
07036220	DATC Barlow Technology	8,682
05027810	WSU – Humanities Building / Chilled Water Plant Design	7,193
04030750	WSU – Hurst Center	6,769
04030750	U of U Sutton Geology and Geophysics Building	5,869
07042390	Unified State Lab Facility	5,637
03215810	WSU – Student Union Renovation	3,978
02032750	U of U – Marriott Library Renovation	3,959
02243750	U of U – New Museum of Natural History	3,378
06292700	USU – USTAR Life Sciences Building	3,152
05188790	UVU – Digital Learning Center	2,901
05050640	Dixie – Health Sciences Building	2,569
07010900	UDOT – Panguitch Maintenance Station	1,583
05196750	U of U – New Humanities Building	1,435
07284100	UCI Warehouse at Draper Prison	1,338
07037550	SL County Joint DLD/DMV	1,187
05051030	SLC Downtown Wine Store	1,134
—	All Others	23,242
	Total Commitments	$ 181,434

(Notes continue on next page.)

NOTE 9. LEASE COMMITMENTS

The State leases office buildings and office and computer equipment. Although the lease terms vary, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If an appropriation is reasonably assured, leases are considered noncancellable for financial reporting purposes.

Leases, that in substance are purchases, are reported as capital lease obligations. In the government-wide financial statements and proprietary fund financial statements, assets and liabilities resulting from capital leases are recorded at the inception of the lease at either the lower of fair value or the present value of the future minimum lease payments. The principal portion of lease payments reduces the liability, and the interest portion is expensed.

On the governmental fund financial statements, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function.

The primary government's capital lease payments were $1.59 million in principal and $1.044 million in interest for fiscal year 2008. As of June 30, 2008, the historical cost of the primary government's assets acquired through capital leases was $28.388 million of which $26.850 million was buildings and $1.538 million was equipment and other depreciable assets. As of June 30, 2008, the accumulated depreciation of the primary government's assets acquired through capital leases was $10.729 million of which $9.995 million was buildings and $734 thousand was equipment and other depreciable assets.

Operating leases contain various renewal options, as well as some purchase options. However, due to the nature of the leases, they do not qualify as capital leases and the related assets and liabilities are not recorded. Any escalation clauses, sublease rentals, and contingent rents were considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses when paid or incurred.

Operating lease expenditures for fiscal year 2008 were $30.378 millions for the primary government and $33.494 million for component units. For fiscal year 2007, the operating lease expenditures were $27.913 million for the primary government and $32.445 million for component units. Future minimum lease commitments for noncancellable operating leases and capital leases as of June 30, 2008, were as follows:

Future Minimum Lease Commitments
(Expressed in Thousands)

	Operating Leases			Capital Leases		
Fiscal Year	Primary Government	Component Units	Total	Primary Government	Component Units	Total
2009	$ 22,972	$ 27,481	$ 50,453	$ 2,496	$ 17,093	$ 19,589
2010	18,322	24,351	42,673	2,401	14,634	17,035
2011	14,675	21,249	35,924	2,043	12,257	14,300
2012	10,632	18,048	28,680	1,722	9,755	11,477
2013	7,600	15,167	22,767	1,677	7,115	8,792
2014–2018	10,562	44,942	55,504	7,856	12,803	20,659
2019–2023	3,422	21,910	25,332	7,238	9,172	16,410
2024–2028	375	6,198	6,573	1,043	1,625	2,668
2029–2033	11	60	71	—	—	—
2034–2038	10	—	10	—	—	—
2039–2043	10	—	10	—	—	—
2044–2048	10	—	10	—	—	—
2049–2053	10	—	10	—	—	—
2054–2059	8	—	8	—	—	—
Total Future Minimum Lease Payments	$ 88,619	$ 179,406	$ 268,025	26,476	84,454	110,930
Less Amounts Representing Interest				(7,707)	(14,379)	(22,086)
Present Value of Future Minimum Lease Payments				$ 18,769	$ 70,075	$ 88,844

NOTE 10. LONG-TERM LIABILITIES

A. Changes in Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008, are presented in the following table. As referenced below, certain long-term liabilities are discussed in other Notes to the Financial Statements.

Long-term Liabilities
(Expressed in Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
General Obligation Bonds	$ 1,237,170	$ 75,000	$ (150,660)	$ 1,161,510	$ 167,700
State Building Ownership Authority Lease Revenue Bonds	273,538	—	(111,924)	161,614	12,960
Net Unamortized Premiums	66,581	1,557	(17,127)	51,011	—
Deferred Amount on Refunding	(17,732)	—	4,111	(13,621)	—
Capital Leases (Note 9)	18,228	2,131	(1,590)	18,769	1,490
Contracts Payable	602	—	(43)	559	47
Compensated Absences (Notes 1 and 17)*	185,630	66,710	(65,759)	186,581	74,523
Claims	44,755	8,123	(11,593)	41,285	16,003
Pollution Remediation Obligation**	6,339	2,887	(1,384)	7,842	1,012
Arbitrage Liability (Note 1)	109	—	(109)	—	—
Total Governmental Long-term Liabilities	$ 1,815,220	$ 156,408	$ (356,078)	$ 1,615,550	$ 273,735
Business-type Activities					
Revenue Bonds	$ 2,137,655	$ 99,670	$ (72,145)	$ 2,165,180	$ 5,355
State Building Ownership Authority Lease Revenue Bonds	36,552	15,380	(1,686)	50,246	2,075
Net Unamortized Premiums	879	367	(129)	1,117	—
Deferred Amount on Refunding	(365)	—	47	(318)	—
Claims and Uninsured Liabilities	4,678	149,924	(148,816)	5,786	4,128
Arbitrage Liability (Note 1)	72,487	—	(6,542)	65,945	608
Total Business-type Long-term Liabilities	$ 2,251,886	$ 265,341	$ (229,271)	$ 2,287,956	$ 12,166
Component Units					
Revenue Bonds	$ 2,115,083	$ 390,200	$ (266,822)	$ 2,238,461	$ 143,132
Net Unamortized Premiums/(Discounts)	1,954	14	(40)	1,928	(63)
Capital Leases/Contracts Payable (Notes 9 and 10)	72,795	22,031	(18,491)	76,335	15,733
Notes Payable	38,649	10,282	(3,660)	45,271	3,894
Claims	123,279	582,905	(581,739)	124,445	73,013
Leave/Termination Benefits (Note 1)	91,856	52,616	(48,519)	95,953	23,542
Total Component Unit Long-term Liabilities	$ 2,443,616	$ 1,058,048	$ (919,271)	$ 2,582,393	$ 259,251

* Compensated absences of governmental activities are liquidated in the General Fund, Uniform School Fund, or Transportation Fund according to the applicable employing state agency. Claims liabilities of governmental activities are liquidated in the Risk Management Internal Service Fund.

** Under the federal Superfund law, the State is responsible for sharing remediation costs at sites where the Environmental Protection Agency expends superfund trust monies for cleanup. Currently there are six sites in various stages of cleanup, from initial assessment to cleanup activities. As a result of implementing GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, additional pollution liabilities of $2.887 million were reported for June 30, 2008, in addition to $6.339 million in pollution liabilities previously reported. These liabilities were measured using the actual contract cost, where no changes in cost are expected, or a method that is materially close to the expected cash flow technique. Liability estimates are subject to change due to price increases or reductions, technology, or changes in applicable laws or regulations governing the remediation efforts. The State does not anticipate recovering reimbursements from the parties who caused the pollution.

B. General Obligation Bonds

The State issues general obligation bonds to provide funds for acquisition, construction, and renovation of major capital facilities and for highway construction. In addition, general obligation bonds have been issued to refund general obligation bonds, revenue bonds, and capitalized leases. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues. As of June 30, 2008, the State had $201.7 million and $1.23 billion of authorized but unissued general obligation building and highway bond authorizations remaining, respectively. General obligation bonds payable information is presented below.

General Obligation Bonds Payable
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2008
1998 A Highway/Capital Facility Issue	07/07/98	2001–2008	5.00 %	$ 265,000	$ 18,725
2001 B Highway/Capital Facility Issue	07/02/01	2004–2009	4.50 %	$ 348,000	73,775
2002 A Highway/Capital Facility Issue	06/27/02	2003–2011	3.00 % to 5.25 %	$ 281,200	23,600
2002 B Refunding Issue	07/31/02	2004–2012	3.00 % to 5.38 %	$ 253,100	250,580
2003 A Highway/Capital Facility Issue	06/26/03	2005–2013	2.00 % to 5.00 %	$ 407,405	293,425
2004 A Refunding Issue	03/02/04	2010–2016	4.00 % to 5.00 %	$ 314,775	314,775
2004 B Highway/Capital Facility Issue	07/01/04	2005–2019	4.75 % to 5.00 %	$ 140,635	111,630
2007 Highway/Capital Facility Issue	07/03/07	2008–2014	4.00 % to 5.00 %	$ 75,000	75,000
Total General Obligation Bonds Outstanding					1,161,510
Plus Unamortized Bond Premium					49,390
Less Deferred Amount on Refunding					(12,728)
Total General Obligation Bonds Payable					$ 1,198,172

General Obligation Bond Issues
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal: 1998 A Highway/Capital Facility	2001 B Highway/Capital Facility	2002 A Highway/Capital Facility	2002 B Refunding Bonds	2003 A Highway/Capital Facility	2004 A Refunding Bonds	2004 B Highway/Capital Facility
2009	$ 18,725	$ 36,125	$ 5,525	$ 29,455	$ 59,300	$ —	$ 9,970
2010	—	37,650	5,750	50,835	61,125	—	11,180
2011	—	—	6,000	53,670	50,025	39,310	25,755
2012	—	—	6,325	56,705	15,100	40,830	30,600
2013	—	—	—	59,915	52,575	11,245	3,575
2014–2018	—	—	—	—	55,300	223,390	20,725
2019–2023	—	—	—	—	—	—	9,825
Total	$ 18,725	$ 73,775	$ 23,600	$ 250,580	$ 293,425	$ 314,775	$ 111,630

Continues Below

Fiscal Year	Principal: 2007 Highway/Capital Facility	Total Principal Required	Total Interest Required	Total Amount Required
2009	$ 8,600	$ 167,700	$ 48,866	$ 216,566
2010	8,950	175,490	40,559	216,049
2011	10,185	184,945	31,503	216,448
2012	15,030	164,590	23,454	188,044
2013	10,300	137,610	16,452	154,062
2014–2018	21,935	321,350	24,871	346,221
2019–2023	—	9,825	251	10,076
Total	$ 75,000	$1,161,510	$ 185,956	$ 1,347,466

C. **Revenue Bonds**

Revenue bonds payable consists of those issued by the Utah State Building Ownership Authority, the Utah State Board of Regents Student Loan Purchase Program, the Utah Housing Corporation, and various colleges and universities. These bonds are not considered general obligations of the State.

Governmental Activities

The Utah State Building Ownership Authority (SBOA) has issued bonds for the purchase and construction of facilities to be leased to state agencies and other organizations. The bonds are secured by the facilities and repayment is made from lease income appropriated by the Legislature and is not considered pledged revenue of the State. The outstanding bonds payable at June 30, 2008, are reported as a long-term liability of the governmental activities, except for $48.485 million and $2.52 thousand which are reported in the Alcoholic Beverage Control Fund, and the Utah Correctional Industries Fund (nonmajor enterprise funds), respectively. These portions are reported as liabilities of the business-type activities on the government-wide statement of net assets.

Business-type Activities

The Utah State Board of Regents Student Loan Purchase Program (Student Assistance Programs) bonds were issued to provide funds for student loans and are secured by all assets of the Board of Regents Revenue Bond Funds and by the revenues and receipts derived from such assets. The Board of Regents has also issued a revenue bond for an office facility secured by funds within the Board of Regents budget that would otherwise be expended for rent.

The Student Assistance Programs include $491.305 million of bonds bearing interest at an adjustable rate, which is determined weekly by a remarketing agent. The Programs bonds also include adjustable rate bonds that are set by an auction procedure every 28 days in the amount of $847.1 million and $809.725 million of bonds that are auctioned every 35 days.

The Student Assistance Programs bonds issued under the 1988 Trust Estate are limited obligations of the Board secured by and payable solely from the Trust Estate established by the Indenture. The bonds were issued to finance eligible student loans. The Trust Estate consists of: Student loans acquired under the indenture; all proceeds of the bonds and net revenues in the funds and accounts; and any other property pledged to the Trust Estate. The Board has pledged these assets and net revenues to repay $598.905 million of outstanding student loan revenue bonds which are payable through 2045. The total principal and interest remaining to be paid on the bonds is discussed below. Principal and interest paid for the current year and total net revenues before interest expense were $80.956 million and $33.660 million, respectively.

The Student Assistance Programs bonds issued under the 1993 Trust Estate are limited obligations of the Board secured by and payable solely from the Trust Estate established by the Indenture. The bonds were issued to finance eligible student loans. The Trust Estate consists of student loans acquired under the indenture, all proceeds of the bonds and net revenues in the funds and accounts, and any other property pledged to the Trust Estate. The Board has pledged these assets and net revenues to repay $1,556.790 million of outstanding student loan revenue bonds which are payable through 2046. The total principal and interest remaining to be paid on the bonds is discussed below. Principal and interest paid for the current year and total net revenues before interest expense were $88.735 million and $74.690 million, respectively.

Discrete Component Units

The Utah Housing Corporation revenue bonds were issued to provide sources of capital for making housing loans to persons of low or moderate income. Bonds repayments are made from the pledged mortgage payments.

The University of Utah, Utah State University and nonmajor component units issued revenue bonds for various capital purposes including student housing, special events centers, student union centers, and hospital and research facilities. The bonds are secured by pledged student building fees and other income of certain college activities.

Information on pledged revenues for discrete component units for the fiscal year ended June 30, 2008, is presented below.

(*Table on next page*.)

Pledged Revenue — Component Units
(Expressed in Thousands)

	Utah Housing Corporation	University of Utah	Utah State University	Nonmajor Component Units
Type of Revenue Pledged*	D	A, B, C	A, B	A
Amount of Pledged Revenue	$3,224,651	$463,330	$128,747	$112,563
Term of Commitment	Thru 2050	Thru 2032	Thru 2035	Thru 2032
Percent of Revenue Pledged	100 %	100 %	100 %	100 %
Current Year Pledged Revenue	$ 107,920	$ 97,353	$ 25,363	$ 11,534
Current Year Principal and Interest Paid	$ 314,871	$ 28,196	$ 6,623	$ 9,945

*Type of Revenue Pledged:

A = Student and housing fees, auxiliary net revenues from bookstores, parking, stadium and event centers, and other campus generated charges and fees.

B = Research net revenue generated from the recovery of allocated facilities and administrative rates to grants and contracts.

C = Hospital and clinic net revenues from providing various health and psychiatric services to the community.

D = Principal and interest repayments from issuing and servicing mortgage loans on single and multi-family housing.

(*Continues on next page*.)

Revenue Bonds Payable — Primary Government
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2008
Governmental Activities					
SBOA Lease Revenue Bonds:					
Series 1992 A	07/15/92	1993–2011	5.30 % to 5.75 %	$ 26,200	$ 8,025
Series 1992 B	07/15/92	1994–2011	4.00 % to 6.00 %	$ 1,380	435
Series 1993 A	12/01/93	1995–2013	4.50 % to 5.25 %	$ 6,230	2,235
Series 1998 C	08/15/98	2000–2019	3.80 % to 5.50 %	$ 101,557	84,760
Series 1999 A	08/01/99	2001–2009	5.25 %	$ 6,960	290
Series 2001 A	11/21/01	2005–2021	4.00 % to 5.00 %	$ 69,850	5,350
Series 2001 B	11/21/01	2002–2024	3.00 % to 5.75 %	$ 14,240	12,215
Series 2003	12/30/03	2005–2025	2.00 % to 5.00 %	$ 20,820	17,475
Series 2004 A	10/26/04	2005–2027	3.00 % to 5.25 %	$ 32,458	30,829
Total Lease Revenue Bonds Outstanding					161,614
Plus Unamortized Bond Premium					1,621
Less Deferred Amount on Refunding					(893)
Total Lease Revenue Bonds Payable					$ 162,342
Business-type Activities					
Student Assistance Programs:					
Series 1988 and 1993 Trust Estate Student Loan Indentures	1988–2007	1998–2046	Variable and 4.45 % to 6.00 %	$2,181,050	$ 2,155,695
Office Facility Bond Fund	2002, 2004	2003–2024	3.00 % to 5.13 %	$ 11,780	9,485
Total Revenue Bonds Outstanding					2,165,180
Plus Unamortized Bond Premium					40
Total Revenue Bonds Payable					$ 2,165,220
SBOA Lease Revenue Bonds:					
Series 1998 C	08/15/98	2000–2019	3.80 % to 5.50 %	$ 3,543	$ 3,190
Series 1999 A	08/01/99	2001–2009	5.25 %	$ 2,495	115
Series 2001 B	11/21/01	2004–2023	3.25 % to 5.25 %	$ 11,540	9,480
Series 2003	12/30/03	2005–2025	2.00 % to 5.00 %	$ 1,905	1,620
Series 2004 A	10/26/04	2005–2025	3.00 % to 5.25 %	$ 13,347	12,386
Series 2006 A	01/10/06	2006–2027	3.50 % to 5.00 %	$ 8,355	8,075
Series 2007 A	07/10/07	2009–2028	4.25 % to 5.00 %	$ 15,380	15,380
Total Lease Revenue Bonds Outstanding					50,246
Plus Unamortized Bond Premium					1,077
Less Deferred Amount on Refunding					(318)
Total Lease Revenue Bonds Payable					$ 51,005
Total Lease Revenue/ Revenue Bonds Payable					$ 2,378,567

Revenue Bond Issues — Primary Government
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

	Principal							
Fiscal Year	**Student Assistance Programs**	**1992 A Utah State Building Ownership Authority**	**1992 B Utah State Building Ownership Authority**	**1993 A Utah State Building Ownership Authority**	**1998 C Utah State Building Ownership Authority**	**1999 A Utah State Building Ownership Authority**	**2001 A Utah State Building Ownership Authority**	**2001 B Utah State Building Ownership Authority**
2009	$ 5,355	$ 1,835	$ 100	$ 400	$ 7,535	$ 405	$ —	$ 1,005
2010	76,610	1,945	105	425	7,950	—	—	1,055
2011	510	2,060	110	445	8,410	—	—	1,090
2012	535	2,185	120	470	8,345	—	—	1,135
2013	555	—	—	495	8,805	—	—	1,175
2014–2018	457,340	—	—	—	44,795	—	—	6,705
2019–2023	3,450	—	—	—	2,110	—	5,350	8,485
2024–2028	135,775	—	—	—	—	—	—	1,045
2029–2033	89,500	—	—	—	—	—	—	—
2034–2038	364,500	—	—	—	—	—	—	—
2039–2043	493,875	—	—	—	—	—	—	—
2044–2048	537,175	—	—	—	—	—	—	—
Total	$2,165,180	$ 8,025	$ 435	$ 2,235	$ 87,950	$ 405	$ 5,350	$ 21,695

Continues Below

	Principal						
Fiscal Year	**2003 Utah State Building Ownership Authority**	**2004 A Utah State Building Ownership Authority**	**2006 A Utah State Building Ownership Authority**	**2007 A Utah State Building Ownership Authority**	**Total Principal Required**	**Interest Required**	**Total Amount Required**
2009	$ 1,240	$ 1,930	$ 290	$ 295	$ 20,390	$ 73,812	$ 94,202
2010	1,275	2,405	300	520	92,590	71,932	164,522
2011	1,325	2,550	315	545	17,360	69,627	86,987
2012	1,375	2,665	325	565	17,720	68,714	86,434
2013	1,440	2,795	335	585	16,185	67,832	84,017
2014–2018	4,530	15,130	1,900	3,350	533,750	235,179	768,929
2019–2023	5,565	10,105	2,330	4,185	41,580	170,947	212,527
2024–2028	2,345	5,635	2,280	5,335	152,415	156,382	308,797
2029–2033	—	—	—	—	89,500	149,088	238,588
2034–2038	—	—	—	—	364,500	119,902	484,402
2039–2043	—	—	—	—	493,875	72,371	566,246
2044–2048	—	—	—	—	537,175	30,656	567,831
Total	$ 19,095	$ 43,215	$ 8,075	$ 15,380	$ 2,377,040	$ 1,286,442	$ 3,663,482

Revenue Bonds Payable — Component Units
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2008
Utah Housing Corporation Issues	1994–2008	2008–2050	Variable and 1.50 % to 9.00 %	$ 2,949,293	$ 1,750,563
University of Utah Revenue Bonds	1987–2007	2013–2032	Variable and 3.00 % to 6.75 %	$ 476,320	$ 331,076
Utah State University Revenue Bonds	2002–2007	2014–2035	1.90 % to 5.25 %	$ 89,670	$ 79,611
Nonmajor Component Units Revenue Bonds	1995–2007	2008–2032	2.00 % to 6.00 %	$ 105,420	$ 77,211
Total Revenue Bonds Outstanding					2,238,461
Colleges and Universities Plus Unamortized Bond Premium					1,928
Total Revenue Bonds Payable					$ 2,240,389

Revenue Bond Issues — Component Units
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

	Principal						
Fiscal Year	Utah Housing Corporation	University of Utah	Utah State University	Nonmajor Component Units	Total Principal Required	Interest Required	Total Amount Required
2009	$ 123,185	$ 11,584	$ 3,296	$ 5,067	$ 143,132	$ 100,262	$ 243,394
2010	30,580	12,699	3,438	5,317	52,034	100,615	152,649
2011	32,232	15,284	3,605	5,016	56,137	98,151	154,288
2012	31,963	13,938	3,767	5,914	55,582	95,488	151,070
2013	32,264	14,427	3,950	4,008	54,649	93,369	148,018
2014–2018	176,747	72,871	20,565	18,894	289,077	422,835	711,912
2019–2023	213,190	72,656	10,765	15,980	312,591	348,751	661,342
2024–2028	306,262	75,367	12,020	9,050	402,699	262,544	665,243
2029–2033	389,087	42,249	12,370	7,966	451,672	155,841	607,513
2034–2038	322,964	—	5,835	—	328,799	58,625	387,424
2039–2043	67,789	—	—	—	67,789	13,557	81,346
2044–2048	18,500	—	—	—	18,500	3,749	22,249
2049–2053	5,800	—	—	—	5,800	478	6,278
Total	$ 1,750,563	$ 331,075	$ 79,611	$ 77,212	$ 2,238,461	$ 1,754,265	$ 3,992,726

D. **Conduit Debt Obligations**

Of the Utah Housing Corporation (component unit) bonds outstanding, $313.38 million were issued as multi-family purchase bonds. Of those bonds, $311.845 million are conduit debt obligations issued on behalf of third parties. The Corporation is not obligated in any manner for repayment of the conduit debt. However, in accordance with the Corporation's accounting policies, the conduit debt is reported in the Corporation's financial statements.

In 1985, the State Board of Regents authorized the University of Utah (component unit) to issue Variable Rate Demand Industrial Development Bonds for the Salt Lake City Marriott University Park Hotel separate from the University. The bonds are payable solely from revenues of the hotel. The bonds do not constitute a debt or pledge of the faith and credit of the University of Utah or the State and, accordingly, have not been reported in the accompanying financial statements. The outstanding balance of the bonds at June 30, 2008, is $5.6 million.

The State Charter School Finance Authority (component unit) issued conduit debt obligations on behalf of various charter schools. The debt is the responsibility of the charter schools, and neither the State nor any political subdivision of the State is obligated in any manner for repayment of the debt. Accordingly, this debt has not been reported in the accompanying financial statements. The outstanding balance at June 30, 2008, is $39.812 million in tax-exempt and $660 thousand in taxable conduit debt.

E. **Demand Bonds**

- The Student Loan Purchase Program had $491.305 million of demand bonds outstanding at June 30, 2008, subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, on seven days notice and delivery to the Board's remarketing agent.

  In the event bonds cannot be remarketed, the Board has standby bond purchase agreements and a letter of credit agreement sufficient to pay the purchase price of bonds delivered to it. The Board pays quarterly fees to maintain the standby bond purchase agreements and letter of credit on the demand bonds.

  The Program has an irrevocable direct-pay letter of credit expiring November 15, 2011, in the amount of $37.462 million to support the Series 1993 A bonds of $35 million. In addition, the Program has a standby bond purchase agreements of $25.336 million expiring November 20, 2013 to support the Series 1988 C bonds of $25 million, $85.294 million expiring November 16, 2025 to support the Series 1995 L bonds of $79.5 million, $108.42 million expiring April 29, 2025 to support the Series 1996 Q and 1997 R bonds of $101.055 million, $158.753 million expiring February 11, 2024 to support the 2005 Series W and X bonds of $151.08 million, and $106.934 million expiring November 29, 2012 to support the 2007 series Y bonds of $99.67 million.

  As of June 30, 2008, the Program had drawn $444.33 million upon the liquidity facility to support certain bonds under the 1988 Series C, 1995 Series L, 1996 Series Q, 1997 Series R, 2005 Series W, and 2005 Series X which had not been remarketed. Under the terms of the liquidity facility, the interest on the bonds held in the liquidity facility are paid at the Bank Rate which is defined as the greater of the Federal Funds Rate plus .50% per annum, or the Prime Rate. The Bank Rate on the bonds increases by 1.25% if the bonds remain in the liquidity facility for more than 90 days. The Bank Rate for the year ended June 30, 2008 ranged between 5% and 6.25%. The bonds are redeemable in semi-annual installments from available funds, provided that all of the unpaid principal amount of Bank Bonds shall be redeemed by the seventh anniversary of the Bank Purchase Date.

  As of June 30. 2008, there were insufficient clearing bids on all of the Program's bonds bearing interest at an adjustable rate, which is set by auction procedure every 28 or 35 days (ARCs). Interest on these bonds will be calculated at the maximum rate. In general, the Maximum Auction Rate means, for any taxable auction, a per annum interest rate on the ARCs which, when taken together with the interest rate on the ARCs for the one year period ending on the final day of the proposed auction period, would result in the average interest rate on the ARCs not being in excess of, the lesser of the 91 day United States Treasury Bill Rate plus 1.20% or LIBOR plus 1.50% for such one year period. For a tax exempt bond the Maximum Auction Rate means, for any auction, a per annum interest rate on the ARCs which, when taken together with the interest rate on the ARCs for the one year period ending on the final day of the proposed auction period, would result in the average interest rate on the ARCs not being in excess of, the lesser of the After Tax Equivalent Rate plus 175% or the Kenny Index for such one year period absent a change in the rating on the bonds. The Maximum Auction Rate for the year ended June 30, 2008 ranged between 0% and 16.62%

- The Utah Housing Corporation (component unit) had $870.715 million of bonds outstanding at June 30, 2008, subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, on delivery to the remarketing agent.

  In the event the variable rate bonds cannot be remarketed, the Corporation has entered into various irrevocable Standby Bond Purchase Agreements (Liquidity Facility) with five different banks totaling $960 million. These Agreements provide that these institutions will provide funds to purchase the variable rate bonds that have been tendered and not remarketed. These liquidity providers receive a fee ranging from 12.5 to 17.5 basis points of the outstanding amount of the variable rate bonds paid on a quarterly basis. The Corporation has not drawn on any of the facilities to date.

- The University of Utah (component unit) Series 1997 A bonds in the amount of $9.42 million currently bear interest at a weekly rate in accordance with bond provisions. When a weekly rate is in effect, the bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's tender agent. If the bonds cannot be remarketed, the tender agent is required to draw on an irrevocable standby bond purchase agreement to pay the purchase price of the bonds delivered to it. The standby bond purchase agreement is with J.P. Morgan Chase Bank and is valid through July 30, 2010. No funds have been drawn against the standby bond purchase agreement. The interest requirement for the Series 1997 A Bonds is calculated using an interest rate of 1.6 percent, which is the rate in effect as of June 30, 2008.

The University's Hospital Revenue Bonds Series 2006 B in the amount of $20.24 million currently bear interest at a daily rate in accordance with the bond provisions. When a daily rate is in effect, these bonds are also subject to purchase on the demand of the holder at a price equal to principal plus accrued interest. The University's remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to this same amount plus accrued interest. If the bonds cannot be remarketed, the tender agent is required to draw on an irrevocable standby bond purchase agreement to pay the purchase price of the bonds delivered to it. This agreement is with DEPFA bank and is valid through October 25, 2013. No funds have been drawn against the standby purchase agreement. The interest requirement for the bonds is calculated using an annualized interest rate of 7 percent which is the rate effective at June 30, 2008.

F. Defeased Bonds and Bond Refunding

On October 15, 2007, the Utah State Building Ownership Authority cash defeased $4.515 million of 1998 C Lease Revenue Bonds at a net cost of $4.887 million. On December 5, 2007, the Utah State Building Ownership Authority cash defeased $56.2 million of 2001 A Lease Revenue Bonds at a net cost of $58.594 million, and cash defeased $8.525 million of 2004 B Lease Revenue Bonds at a net cost of $8.507 million. These funds were paid to an escrow agent to be placed in an irrevocable trust account to provide for the debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Statement of Net Assets.

In prior years, the State defeased certain general obligation and revenue bonds by placing the proceeds of new bonds and other monies available for debt service in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Statement of Net Assets. At June 30, 2008, the total amount outstanding of defeased general obligation bonds was $401.81 million. At June 30, 2008, the total amount outstanding of defeased revenue bonds was $73.7 million.

In prior years, component units defeased certain revenue bonds by placing the proceeds of new bonds and various bond reserves in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the component unit column on the Statement of Net Assets. At June 30, 2008, $131.472 million of college and university bonds outstanding are considered defeased.

G. Contracts Payable

Component unit capital leases/contracts payable include $6.26 million in life annuity contracts.

H. Notes Payable

The notes payable balance consists of notes issued by component units for the purchase of buildings and equipment. The notes bear various interest rates and will be repaid over the next 17 years. They are secured by the related assets. Payment information on notes payable is presented below.

Notes Payable Debt Service Requirements to Maturity
Component Units
For Fiscal Years Ending June 30
(Expressed in Thousands)

	Principal						
Fiscal Year	**Utah Housing Corporation**	**University of Utah**	**Utah State University**	**Nonmajor Component Units**	**Total Principal Required**	**Interest Required**	**Total Amount Required**
2009	$ 27	$ 902	$ 1,777	$ 1,188	$ 3,894	$ 2,318	$ 6,212
2010	30	849	1,850	1,161	3,890	2,148	6,038
2011	33	850	1,829	526	3,238	1,935	5,173
2012	36	803	1,785	3,919	6,543	1,752	8,295
2013	40	861	1,873	487	3,261	1,422	4,683
2014–2018	95	5,350	9,852	160	15,457	4,538	19,995
2019–2023	—	2,637	5,220	—	7,857	981	8,838
2024–2028	—	—	1,131	—	1,131	22	1,153
Total	$ 261	$ 12,252	$ 25,317	$ 7,441	$ 45,271	$ 15,116	$ 60,387

I. **Debt Service Requirements for Derivatives**

Swap Payments and Associated Debt — As explained in Note 3.D., Utah Housing Corporation (major component unit) had entered into 76 separate pay-fixed, receive-variable interest rate swaps and one Interest Rate Cap Agreement as of June 30, 2008. Using rates as of June 30, 2008, debt service requirements of the Corporation's outstanding variable-rate debt and net swap payments are presented below. As rates vary, variable-rate bond interest payments and net swap payments/(receipts) will vary. The principal, interest and net swap interest are included in the Component Unit debt service schedule presented on page 95 for Utah Housing Corporation.

Utah Housing Corporation
Swap Payments and Associated Debt
For Fiscal Years Ending June 30
(Expressed in Thousands)

Fiscal Year	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Interest Rate Swaps, Net	Total
2009	$ 10,880	$ 14,262	$ 20,762	$ 45,904
2010	1,760	14,045	22,147	37,952
2011	1,965	14,010	22,085	38,060
2012	1,660	13,971	22,020	37,651
2013	1,860	13,938	21,961	37,759
2014–2018	29,390	68,761	107,964	206,115
2019–2023	95,850	63,465	98,758	258,073
2024–2028	155,455	52,851	81,149	289,455
2029–2033	258,390	34,936	50,843	344,169
2034–2038	209,575	12,226	15,586	237,387
2039–2040	22,860	462	337	23,659
Total	$ 789,645	$ 302,927	$ 463,612	$ 1,556,184

(*Notes continue on next page*.)

NOTE 11. GOVERNMENTAL FUND BALANCES AND NET ASSETS RESTRICTED BY ENABLING LEGISLATION

A. Governmental Fund Balances – Reserved and Designated

The State's reserved fund balances represent: (***1***) **Nonlapsing Appropriations** which include continuing appropriations or nonlapsing funds, encumbrances for construction contracts in the capital projects funds, and limited encumbrances in the general and special revenue funds; or (***2***) **Restricted Purposes** which include fund balances that are legally restricted for other purposes, assets restricted by bond agreements or other external restrictions, and those portions of fund balance that are not available for appropriation or expenditure, such as loans to internal service funds. A summary of the nature and purpose of these reserves by fund type at June 30, 2008, follows:

Reserved Fund Balances
(Expressed in Thousands)

	Nonlapsing Appropriations	Restricted Purposes	Total Reserved
General Fund:			
Legislature	$ 5,084	$ —	$ 5,084
Governor	15,422	2,569	17,991
Elected Officials	63,181	1	63,182
Administrative Services	6,023	3,287	9,310
Tax Commission	14,769	12,258	27,027
Human Services	11,539	5,794	17,333
Corrections	10,142	1	10,143
Public Safety	32,251	12,079	44,330
Courts	2,044	9,321	11,365
Health	6,893	23,075	29,968
Environmental Quality	1,348	6,492	7,840
Higher Education	712	—	712
Employment and Family Services	—	22,232	22,232
Natural Resources	17,963	31,372	49,335
Community and Culture	3,675	534	4,209
Business, Labor, and Agriculture	10,808	14,277	25,085
Industrial Assistance Account	—	32,049	32,049
Loans to Internal Service Funds	—	22,237	22,237
Tobacco Settlement Funds	—	1,242	1,242
Oil Overcharge Funds	—	1,203	1,203
Mineral Bonus Account	—	33,302	33,302
Other Purposes	841	34,780	35,621
Total	$ 202,695	$ 268,105	$ 470,800
Uniform School Fund:			
Minimum School Program	$ 120,574	$ —	$ 120,574
State Office of Education	22,192	—	22,192
School Building Program	—	15,790	15,790
School Land Interest	—	30,901	30,901
Loans to Internal Service Funds	—	121	121
Total	$ 142,766	$ 46,812	$ 189,578
Transportation Fund:			
Transportation	$ 26,459	$ 148,336	$ 174,795
Public Safety	—	14,110	14,110
Corridor Preservation	—	21,786	21,786
Aeronautical Programs	—	5,678	5,678
Total	$ 26,459	$ 189,910	$ 216,369
Transportation Investment Fund:			
Transportation Investment Fund of 2005	$ —	$ 57,369	$ 57,369
Centennial Highway Program	—	125,487	125,487
Total	$ —	$ 182,856	$ 182,856
Trust Lands Fund:			
Funds Held as Permanent Investments	$ —	$1,014,449	$1,014,449
Non-major Governmental Funds:			
Capital Projects	$ 181,434	$ 901	$ 182,335
Debt Service	—	5,769	5,769
Tobacco Settlement Funds	—	45,834	45,834
Environmental Reclamation	—	21,017	21,017
Other Purposes	—	9,262	9,262
Total	$ 181,434	$ 82,783	$ 264,217

Designated Fund Balances
(Expressed in Thousands)

	General Fund	Education Fund	Uniform School Fund	Transportation Fund
Designated for:				
Budget Reserve (Rainy Day) Account	$ 194,280	$ —	$ —	$ —
Education Budget Reserve Account	—	234,676	—	—
Disaster Recovery Account	34,697	—	—	—
Postemployment and Other Liabilities	145,106	179,322	1,024	44,602
Fiscal Year 2009 Appropriations:				
Line Item Appropriations	19,985	—	182,194	—
Capital Projects	—	—	—	—
Debt Service	—	—	—	—
Total	$ 394,068	$ 413,998	$ 183,218	$ 44,602

Continues Below

	Transportation Investment Fund	Nonmajor Governmental Funds	Total Governmental Funds
Designated for:			
Budget Reserve (Rainy Day) Account	$ —	$ —	$ 194,280
Education Budget Reserve Account	—	—	234,676
Disaster Recovery Account	—	—	34,697
Postemployment and Other Liabilities	17,016	—	387,070
Fiscal Year 2009 Appropriations:			
Line Item Appropriations	—	—	202,179
Capital Projects	—	60,735	60,735
Debt Service	—	20,801	20,801
Total	$ 17,016	$ 81,536	$ 1,134,438

B. **Net Assets Restricted by Enabling Legislation**

The State's net assets restricted by enabling legislation represent resources which a party external to a government—such as citizens, public interest groups, or the judiciary—can compel the government to use only for the purpose specified by the legislation.

The government-wide Statement of Net Assets reports $4.053 billion of restricted net assets, of which $20.609 million is restricted by enabling legislation.

NOTE 12. DEFICIT NET ASSETS AND FUND BALANCE

Funds reporting a deficit total net assets position at June 30, 2008, are (in thousands):

Private Purpose Trust Funds:	
Employers' Reinsurance	$ (34,120)
Petroleum Storage Tank	$ (25,269)

The deficit in the Employers' Reinsurance Trust represents the unfunded portion of the actuarial estimate of claims incurred. The Employers' Reinsurance Trust claims are funded from assessments on all workers' compensation insurance issued to employers within the State. The Utah Labor Commission sets the rate up to the maximum established by the Legislature to keep current revenues at a level sufficient to cover current cash disbursements. State law limits the State's liability to the cash or assets in the Employers' Reinsurance Trust only. State law also limits the Trust's liability to claims resulting from industrial accidents or occupational diseases occurring on or before June 30, 1994. For claims resulting from accidents or diseases on or after July 1, 1994, the employer or its insurance carrier is liable for resulting liabilities. Unfunded future claims are payable solely from future trust revenues.

The Petroleum Storage Tank Trust covers the clean-up costs of leaks from state-approved underground petroleum storage tanks. The assets in the fund are more than adequate to pay current claims. Unfunded future claims will be funded solely by future trust revenues.

Funds/activities reporting a deficit position in the unrestricted portion of their net assets at June 30, 2008, are (in thousands):

Internal Service Funds:	
Technology Services	$ (2,703)
General Services	$ (615)
Fleet Operations	$ (12,354)
Property Management	$ (237)

The Internal Service Funds deficits are mainly due to the significant investment in capital assets required for these operations. The deficits will be covered by future charges for services. Management may also seek rate increases to help reduce these deficits.

In addition, the Capital Projects – State Building Ownership Authority Fund (nonmajor governmental fund) reported a $3.708 million deficit unreserved undesignated fund balance as a result of outstanding encumbrances on various capital projects. Appropriations and bond proceeds available in the next fiscal year will fund these deficits.

NOTE 13. INTERFUND TRANSFERS

Transfers between funds occur when one fund collects revenue and transfers the assets to another fund for expenditure or when one fund provides working capital to another fund. All transfers must be legally authorized by the Legislature through statute or an *Appropriation Act*. Interfund transfers for the fiscal year ended June 30, 2008, are as follows (in thousands):

Transfers In:

	Governmental Funds					
Transfers Out:	**General Fund**	**Education Fund**	**Uniform School Fund**	**Transportation Fund**	**Transportation Investment Fund**	**Trust Lands Fund**
General Fund	$ —	$ —	$ 6,250	$ 191,803	$ 359,000	$ 32
Education Fund	728,116	—	2,319,321	—	—	—
Uniform School Fund	60,898	44,237	—	—	—	—
Transportation Fund	38,765	—	—	—	79,833	—
Transportation Investment Fund	5,000	—	—	72,431	—	—
Nonmajor Governmental Funds	7,914	—	—	—	—	—
Unemployment Compensation	588	—	—	—	—	—
Water Loan Programs	3,670	—	—	—	—	—
Nonmajor Enterprise Funds	62,904	—	—	—	—	9,618
Internal Service Funds	367	—	—	—	—	—
Total Transfers In	$ 908,222	$ 44,237	$ 2,325,571	$ 264,234	$ 438,833	$ 9,650

Continues Below

Transfers In:

	Governmental Funds	Enterprise Funds			
Transfers Out:	**Nonmajor Governmental Funds**	**Water Loan Programs**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Total Transfers Out**
General Fund	$ 282,283	$ 1,582	$ 32,498	$ 378	$ 873,826
Education Fund	128,084	—	—	—	3,175,521
Uniform School Fund	—	—	5,000	—	110,135
Transportation Fund	12,647	—	—	—	131,245
Transportation Investment Fund	131,627	—	—	—	209,058
Nonmajor Governmental Funds	5,012	—	—	—	12,926
Unemployment Compensation	—	—	—	—	588
Water Loan Programs	—	—	—	—	3,670
Nonmajor Enterprise Funds	—	—	—	33	72,555
Internal Service Funds	—	—	—	33	400
Total Transfers In	$ 559,653	$ 1,582	$ 37,498	$ 444	$ 4,589,924

Transfers from major governmental funds to nonmajor governmental funds are primarily for capital facility construction and debt service expenditures. Transfers from the General Fund to nonmajor enterprise funds are primarily mineral lease royalties used to make loans and grants to local governments through the Community Impact Loan Fund. Transfers from nonmajor enterprise funds to the General Fund are mostly liquor profits from the Alcoholic Beverage Control Fund that are required by statute to be deposited in the General Fund. All other transfers are made to finance various programs as authorized by the Legislature.

During fiscal year 2008, the Legislature authorized transfers of $367 thousand from the Internal Service Funds to the General Fund to subsidize general fund revenues. In addition, the Legislature authorized payments of $810.892 million to the Colleges and Universities. Payments to the Colleges and Universities are reported as expenditures in both the General Fund fund statements and the Governmental Activities column of the Statement of Activities. They are also reported as revenues in the Component Units column of the Statement of Activities.

NOTE 14. LITIGATION, CONTINGENCIES, AND COMMITMENTS

A. Litigation

The State is involved in various legal actions arising in the ordinary course of business. The State is vigorously contesting all of these matters, but as of this date it is not possible to determine the outcome of these proceedings. In the opinion of the Attorney General and management, the ultimate disposition of these matters will not have a material adverse effect on the State's financial position.

- Members of the Navajo Nation allege the State of Utah has mismanaged Navajo Nation Trust Fund monies. The plaintiffs are seeking an accounting of the legitimacy of the fund's receipts and disbursements, and damages of $142 million including interest and attorneys' fees.

- A lawsuit was filed by the Tobacco Companies against the settling states participating in a master settlement agreement in an effort to recoup tobacco settlement payments made in prior years. The plaintiffs allege that they are entitled to a non-participating manufacturer adjustment that will allow them to take a credit against these payment obligations. The dispute is currently subject to arbitration. It is impossible to determine the potential liability; however, any settlement will be a reduction in future state tobacco receipts.

- In addition to the items above, the State is contesting other legal actions totaling over $9.6 million plus attorneys' fees and interest and other cases where the amount of potential loss is undeterminable.

B. Contingencies

- Financial and compliance audits (Single Audit) of federal grants, contracts, and agreements were conducted under the provisions of the Federal Office of Management and Budget's circulars. As a result of the audits, the allowability of $34.328 million of federal expenditures is in question. These costs will be contested with the federal agency involved, and management estimates the liability to be less than the questioned amounts. In addition, program compliance audits by the federal government are conducted periodically; however, an estimate of any potential disallowances on these audits and findings on other audits on noncompliance cannot be estimated as to the potential liability. The Single Audit for the fiscal year ended June 30, 2008, is in process.

- Management's estimated liability for the Petroleum Storage Tank Trust (private purpose trust fund) is highly sensitive to change based on the short period of historical data and the uncertainties in estimating costs. Since it is not possible to determine the occurrence date of a leak in an underground storage tank, it is not possible to estimate the number or the associated costs of leaks that have not been detected.
- The Utah Department of Transportation (UDOT) plans on seeking reimbursement from the Federal Highway Administration (FHWA) for approximately $508 thousand for fiscal year 2009. The State received $14.37 million in fiscal year 2008. The related costs were incurred by the State as a result of the I-15 reconstruction project and were originally paid using state funds. UDOT has not recorded an accounts receivable for these future reimbursement requests because the requests are contingent upon sufficient future federal funds and federal obligation authority becoming available and future approval by the FHWA.

- The State was totally self-insured for liability claims until February 1, 2008. After this date, the State is self-insured for liability claims up to $1 million and beyond the excess insurance policy limit of $10 million. The State is self-insured for individual property and casualty claims up to $1 million and up to $3.5 million in aggregate claims and beyond the excess insurance policy limit of $600 million per occurrence. According to an actuarial study and other known factors, $41.285 million exists as either incurred but unfiled or unpaid claims. This amount is reported as a liability of the Department of Administrative Services' Risk Management Fund (internal service fund).

- The Utah School Bond Guaranty Act (*Utah Code Annotated, 1953,* as amended, Sections 53A–28–101 to 402), which took effect on January 1, 1997, pledges the full faith, credit, and unlimited taxing power of the State to guaranty full and timely payment of the principal and interest on general obligation bonds issued by qualifying local school boards. The primary purpose of the Guaranty Act is to reduce borrowing costs for local school boards by providing credit enhancement for Guarantied Bonds.

  In the event a school board is unable to make the scheduled debt service payments on its Guarantied Bonds, the State is required to make such payments in a timely manner. For this purpose, the State may use any available monies, may use short-term borrowing from the State Permanent School Fund (part of the permanent Trust Lands Fund), or may issue short-term general obligation notes. The local school board remains liable to the State for any such payments on Guarantied Bonds. Reimbursements to the State may be obtained by intercepting payment of state funds intended for the local school board. The State may also compel the local school board to levy a tax sufficient to reimburse the State for any guaranty payments.

  The State Superintendent of Public Instruction is charged with monitoring the financial condition of local school boards and reporting, at least annually, its conclusions to the Governor, the Legislature, and the State Treasurer. The State Superintendent must report immediately any circumstances which suggest a local school board may not be able to pay its debt service obligations when due. The State does not expect that it will be required to advance monies for the payment of debt service on Guarantied Bonds for any significant period of time.

  Local school boards have $2.458 billion principal amount of Guarantied Bonds outstanding at June 30, 2008. The State cannot predict the amount of bonds that may be guarantied in future years, but no limitation is currently imposed by the Guaranty Act.

- The Attorney General of the State sued the tobacco industry for medical costs related to smoking. The State of Utah has signed on to a master settlement agreement along with 45 other states.

The major tobacco manufacturers and most of the smaller manufacturers have joined the agreement. The State received $42.059 million from tobacco companies in fiscal year 2008 and expects to receive approximately $43.861 million in fiscal year 2009. Annual payments will be adjusted for factors such as inflation, decreased sales volume, previously settled law suits, disputed payments, and legal fees.

C. **Commitments**

- At June 30, 2008, the Industrial Assistance Program of the General Fund had grant commitments of $3.118 million, contingent on participating companies meeting certain performance criteria.

- Utah Retirement Systems (pension trust funds) has at its yearend December 31, 2007, committed to fund certain private equity partnerships and real estate projects for an amount of $5.592 billion. Funding of $3.446 billion has been provided, leaving an unfunded commitment of $2.146 billion as of December 31, 2007, which will be funded over the next five years.

- As of June 30, 2008, the Utah Housing Corporation (major component unit) has committed to purchase mortgages under the warehouse loans and the Single-Family Mortgage Purchase Program in the amount of $45.99 million. The Corporation has a Revolving Credit Loan with a Utah industrial bank in the amount of $5 million due October 31, 2009. At June 30, 2008, the outstanding balance was $1.725 million. The Revolving Credit Loan bears interest at a calculated LIBOR rate advance or base rate advance. The revolving Credit Loan balance consists of two separate loans. The first loan is dated November 9, 2007 for $1.275 million with an interest rate of 2.73 percent at June 30, 2008. The second loan is dated June 26, 2008 for $450 thousand with an interest rate of 2.25 percent at June 30, 2008. These two loans are due during the year ended June 30, 2009.

- At June 30, 2008, the enterprise funds had loan commitments of approximately $454.105 million and grant commitments of approximately $42.362 million.

- At June 30, 2008, the Utah Higher Education Assistance Authority Student Loan Guarantee Program (Student Assistance Programs, major enterprise fund) had guaranteed student loans outstanding with an original principal amount of approximately $2.32 billion. Also, at June 30, 2008, the Student Assistance Programs had commitments to purchase approximately $280.915 million in student loans and provide approximately $8.436 million in reductions to borrower loan balances.

- At June 30, 2008, the Utah Department of Transportation had construction and other contract commitments of $811.588 million, of which $169.836 million is for Transportation Investment Fund (special revenue fund) projects and $641.752 million is for Transportation Fund (special revenue fund) projects. These commitments will be funded with bonded debt and future appropriations.

NOTE 15. JOINT VENTURE

The Utah Communications Agency Network (UCAN) was created by the State Legislature in 1997 as an independent agency. Its purpose is to provide public safety communications services and facilities on a regional or statewide basis.

UCAN's governing board consists of ten representatives elected by the board, and five state representatives of which four are appointed by the Governor. The State has contracted to purchase communication services from UCAN to meet the needs of law enforcement officers in the Departments of Public Safety, Corrections, Natural Resources, and other smaller state agencies.

In fiscal year 1998 the State provided startup capital of $185 thousand. UCAN also may receive legal counsel from the Attorney General's Office at no cost. Contracts with state agencies are estimated to provide over 30 percent of UCAN's operating revenues.

UCAN had $7.61 million of revenue bonds outstanding at June 30, 2008. UCAN's debt is not a legal obligation of the State; however, if UCAN cannot meet its debt service requirements, state law allows the Governor to request an appropriation to restore the debt service reserve fund to its required level or to meet any principal or interest payment deficiency. The Legislature is not required to make any such appropriation, but if made, UCAN must repay the State within 18 months. To date, UCAN has never requested any such funding from the State and has had sufficient resources to cover its debt service and debt service reserve requirements.

The Utah State Auditor's Office audits UCAN's financial statements. Copies of those statements can be obtained from UCAN's administrative office or from the Utah State Auditor's Office.

NOTE 16. PENSION PLANS

Eligible employees of the State are covered by one of the following retirement plans:

A. **Utah Retirement Systems**

Utah Retirement Systems (URS) was established by Section 49 of *Utah Code Annotated, 1953*, as amended. URS administers the pension systems and plans under the direction of the URS Board, which consists of the State Treasurer and six members appointed by the Governor. URS has a separate accounting system and prepares a separately issued financial report covering all retirement systems and deferred compensation plans it administers. URS maintains records and prepares separately issued financial statements using fund accounting principles and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Revenues, including contributions, are recorded in the accounting period in which they are earned and become measurable. URS reports on a calendar yearend. The December 31, 2007, financial report has been included in this Comprehensive Annual Financial Report as a pension trust fund for the Utah Retirement Systems (URS) within the fiduciary funds. Copies of the separately issued financial report that include financial statements and required supplemental information may be obtained by writing to Utah Retirement Systems, 560 East 200 South, Salt Lake City, Utah 84102, or by calling 1-800-365-8772.

The URS operations are comprised of the following groups of systems and plans covering substantially all employees of the State, public education, and other political subdivisions of the State:

- The Public Employees Contributory Retirement System

(Contributory System); the Public Employees Noncontributory Retirement System (Noncontributory System); and the Firefighters Retirement System (Firefighters System), which are defined-benefit multiple-employer, cost-sharing, public employee retirement systems;

- The Public Safety Retirement System (Public Safety System), which is a defined-benefit mixed agent and cost-sharing, multiple-employer retirement system;

- The Judges Retirement System (Judges System) and the Utah Governors and Legislative Retirement Plan, which are single-employer service employee retirement systems; and five defined contribution plans comprised of the 401(k) Plan, 457 Plan, Roth and Traditional IRA Plans, and Health Reimbursement Arrangement.

Retirement benefits are specified by Section 49 of *Utah Code Annotated, 1953*, as amended. The retirement systems are defined-benefit plans in which the benefits are based on age and/or years of service and highest average salary. Various plan options within the systems may be selected by retiring members. Some of the options require actuarial reductions based on attained age, age of spouse, and similar actuarial factors. A brief summary of eligibility for and benefits of the systems is provided in the following table:

Summary of Eligibility and Benefits

	Contributory System	Noncontributory System	Public Safety System	Firefighters System	Judges System
Highest Average Salary	Highest 5 Years	Highest 3 Years	Highest 3 Years		Highest 2 Years
Years of Service Required and/or Age Eligible for Benefit	30 years any age *20 years age 60 *10 years age 62 4 years age 65	30 years any age *25 years any age *20 years age 60 *10 years age 62 4 years age 65	20 years any age 10 years age 60 4 years age 65		25 years any age *20 years age 55 10 years age 62 6 years age 70
Benefit Percent per Year of Service	1.25% to June 1975 2.00% July 1975 to present	2.00% per year	2.50% per year up to 20 years 2.00% per year over 20 years Benefit cannot exceed 70% of final average salary		5.00% first 10 years 2.25% second 10 years 1.00% over 20 years Benefit cannot exceed 75% of final average salary

*With actuarial reductions

Former governors at age 65 receive $1,180 per month per term. Legislators receive a benefit actuarially reduced at age 62 with ten or more years of service, or an unreduced benefit at age 65 with four or more years of service at the rate of $26 per month per year of service. Both the governors' and legislators' benefits are adjusted based on the Consumer Price Index (CPI), limited to 4 percent of the base benefit per year.

Death benefits for active and retired employees are in accordance with retirement statutes. Upon termination of employment, members of the systems may leave their retirement account intact for future benefits based on vesting qualification, or withdraw the accumulated funds in their individual member account and forfeit service credits and rights to future benefits upon which the contributions were based.

As a condition of participation in the systems, employers and/or employees are required to contribute certain percentages of salaries and wages as authorized by statute and specified by the Board. Employee contributions may be paid in part or in whole by the employer. Contributions in some systems are also augmented by fees or insurance premium taxes. Below is a summary of system participants.

Participants
December 31, 2007

	Non-contributory System	Contributory System	Public Safety System	Fire-fighters System	Judges System	Governors and Legislative Retirement Plan
Number of participating:						
Employers	411	160	126	51	1	1
Members:						
Active	89,605	2,852	7,587	1,771	108	86
Terminated vested	28,996	1,404	1,576	112	7	87
Retirees and beneficiaries:						
Service benefits	29,965	5,549	3,600	985	96	220
Disability benefits	—	3	14	78	—	—

Employer contribution rates consist of (***1***) an amount for normal cost (the estimated amount necessary to finance benefits earned by the members during the current year) and (***2***) an amount for amortization of the unfunded, or excess funded actuarial accrued liability over an open 20 year amortization period. These rates are determined using the entry age actuarial cost method with a supplemental present value and the same actuarial assumptions used to calculate the actuarial accrued liability.

The following table presents the State of Utah's actuarially determined employer contributions required and paid to URS. These amounts are equal to the annual pension costs for each of the stated years and all of these amounts were paid for each year. Accordingly, the net pension obligation (NPO) at the end of each year was zero. For the Governors and Legislative Retirement Plan, there has been no annual pension cost, required contributions, or NPO because the plan was overfunded for each of these years.

State of Utah's Employer Contributions
Required and Paid
For Fiscal Years Ended June 30
(Expressed in Thousands)

	Contributory System	Noncontributory System	Public Safety System	Firefighters System	Judges System	Total All Systems
Primary Government:						
2008	$ 3,792	$ 101,591	$ 29,261	$ 75	$ 1,737	$ 136,456
2007	$ 3,874	$ 94,384	$ 27,208	$ 59	$ 1,238	$ 126,763
2006	$ 4,197	$ 87,445	$ 22,701	$ 49	$ 1,007	$ 115,399
2005	$ 4,335	$ 80,966	$ 21,112	$ 52	$ 814	$ 107,279
2004	$ 3,894	$ 67,745	$ 19,165	$ 50	$ 782	$ 91,636
Component Units:						
Colleges and Universities:						
2008	$ 2,160	$ 40,781	$ 498	$ —	$ —	$ 43,439
2007	$ 2,200	$ 39,016	$ 488	$ —	$ —	$ 41,704
2006	$ 2,117	$ 37,813	$ 425	$ —	$ —	$ 40,355
2005	$ 2,201	$ 35,195	$ 422	$ —	$ —	$ 37,818
2004	$ 1,996	$ 30,434	$ 411	$ —	$ —	$ 32,841
Other:						
2008	$ 76	$ 2,938	$ —	$ —	$ —	$ 3,014
2007	$ 78	$ 2,722	$ —	$ —	$ —	$ 2,800
2006	$ 60	$ 2,385	$ —	$ —	$ —	$ 2,445
2005	$ 59	$ 2,273	$ —	$ —	$ —	$ 2,332
2004	$ 52	$ 1,913	$ —	$ —	$ —	$ 1,965
Total Primary Government and Component Units:						
2008	$ 6,028	$ 145,310	$ 29,759	$ 75	$ 1,737	$ 182,909
2007	$ 6,152	$ 136,122	$ 27,696	$ 59	$ 1,238	$ 171,267
2006	$ 6,374	$ 127,643	$ 23,126	$ 49	$ 1,007	$ 158,199
2005	$ 6,595	$ 118,434	$ 21,534	$ 52	$ 814	$ 147,429
2004	$ 5,942	$ 100,092	$ 19,576	$ 50	$ 782	$ 126,442

(*Continues on next page*.)

The following table summarizes contribution rates in effect at December 31, 2007:

Contribution Rates as a Percent of Covered Payroll

System	Member	Employer	Other
Contributory	6.00 %	7.61 % – 9.73 %	—
Noncontributory	—	11.62 % – 14.22 %	—
Public Safety:			
Contributory	10.50 % – 13.74 %	11.22 % – 22.99 %	—
Noncontributory	—	22.47 % – 35.71 %	—
Firefighters:			
Division A	12.76 %	—	11.50 %
Division B	9.30 %	—	11.50 %
Judges:			
Contributory	2.00 %	10.38 %	15.45 %
Noncontributory	—	12.38 %	15.45 %
Governors and Legislative	—	—	—

Defined Contribution Plans

The 401(k), 457, Roth and Traditional IRA Plans, and Health Reimbursement Arrangement (HRA) administered by URS, in which the State participates, are defined contribution plans. These plans are available as supplemental plans to the basic retirement benefits of the retirement systems. Contributions may be made into the plans subject to plan and Internal Revenue Code limitations. Employer contributions may be made into the plans at rates determined by the employers and according to Utah Title 49. There are 357 employers participating in the 401(k) Plan and 153 employers participating in the 457 Plan. There are 138,369 plan participants in the 401(k) Plan, 16,080 participants in the 457 Plan, 1,175 participants in the Roth IRA Plan, 356 participants in the Traditional IRA Plan, and 490 in the HRA.

After termination of employment, benefits are paid out to individuals in lump sum, or as periodic benefit payments, at the option of the participant based on individual account balances and plan provisions. The defined contribution plans account balances are fully vested to the participants at the time of deposit. Investments of the plans are reported at fair value.

Employees of the State are eligible to participate in the deferred compensation 401(k), 457, Roth and Traditional IRA Plans. For the 401(k) plan, the State and participating employers are required to contribute to employees who participate in the noncontributory retirement plan. The State contributes 1.5 percent of eligible employees' salaries which amount vests immediately. The amounts contributed to the 401(k) Plan during the year ended June 30, 2008, by employees and employers are as follows: for Primary Government, $37.814 million and $16.575 million; for Component Units – Colleges and Universities, $4.507 million and $4.649 million; for Component Units – Other, $1.010 million and $698 thousand; and the combined total for all is $43.331 million and $21.922 million, respectively. The amounts contributed to the 457, Roth and Traditional IRA Plans are $7.477 million, $645 thousand, and $19 thousand, respectively.

Pension Receivables and Investments

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Many factors are considered in arriving at that value. Corporate debt securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on an amortized cost basis, which approximates market or fair value. The fair value of real estate investments has been estimated based on independent appraisals. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, have determined the fair value for the individual investments. Approximately 14 percent of the net assets held in trust for the pension benefits are invested in debt securities of the U.S. Government and its instrumentalities. Of the 14 percent, approximately 3 percent are U.S. Government debt securities and 11 percent are debt securities of the U.S. Government instrumentalities. The systems and plans have no investments of any commercial or industrial organization whose market value equals 5 percent or more of the net assets held in trust for pension benefits. The principal components of the receivables and investment categories are presented below.

(*Continues on next page*.)

Pension Receivables and Investments
(Expressed in Thousands)

	Non-contributory System	Contributory System	Public Safety System	Fire-fighters System	Judges System	Governors and Legislative Retirement Plan
Receivables:						
Member Contributions	$ —	$ 421	$ 336	$ 407	$ 1	$ —
Employer Contributions	32,257	618	3,510	—	66	—
Court Fees and Fire Insurance Premium	—	—	—	2,871	280	—
Investments	327,924	22,168	41,236	15,914	2,629	239
Total Receivables	$ 360,181	$ 23,207	$ 45,082	$ 19,192	$ 2,976	$ 239
Investments:						
Debt Securities	$ 4,286,066	$ 289,746	$ 538,960	$ 208,001	$ 34,355	$ 3,126
Equity Investments	7,184,853	485,709	903,473	348,679	57,592	5,240
Absolute Return	1,752,972	118,504	220,431	85,071	14,051	1,279
Private Equity	919,257	62,144	115,595	44,611	7,368	670
Real Estate	3,016,041	203,890	379,257	146,367	24,175	2,200
Mortgage Loans	5,474	370	688	265	44	4
Invested Securities Lending Collateral	1,452,735	98,207	182,678	70,500	11,645	1,060
Investment Contracts	—	—	—	—	—	—
Total Investments	$ 18,617,398	$ 1,258,570	$ 2,341,082	$ 903,494	$ 149,230	$ 13,579

Continues Below

	401(k) Plan	457 Plan	IRA Plans	Health Reimbursement Arrangement	Total December 31, 2007
Receivables:					
Member Contributions	$ —	$ —	$ —	$ —	$ 1,165
Employer Contributions	—	—	—	—	36,451
Court Fees and Fire Insurance Premium	—	—	—	—	3,151
Investments	51,712	3,627	—	2	465,451
Total Receivables	$ 51,712	$ 3,627	$ —	$ 2	$ 506,218
Investments:					
Debt Securities	$ 960,466	$ 98,157	$ 10,005	$ —	$ 6,428,882
Equity Investments	1,564,210	162,367	14,157	—	10,726,280
Absolute Return	—	—	—	—	2,192,308
Private Equity	—	—	—	—	1,149,645
Real Estate	—	—	—	—	3,771,930
Mortgage Loans	—	—	—	—	6,845
Invested Securities Lending Collateral	165,123	17,451	1,580	—	2,000,979
Investment Contracts	28,470	12,929	—	—	41,399
Total Investments	$ 2,718,269	$ 290,904	$ 25,742	$ 0	$ 26,318,268

Actuarial Methods and Assumptions

The information contained in the Schedules of Funding Progress is based on the actuarial study dated January 1, 2007, and calendar year 2007 activity. The actuarial accrued liability and schedule of funding progress is presented by the retirement systems for the last ten years in their separately presented financial reports based on the report generated by the latest actuarial study, conducted by Gabriel, Roeder, Smith & Company. The actuarial value of assets is based on a smoothed expected investment income rate. Investment income in excess or shortfall of the expected 8 percent return on fair value is smoothed over a five-year period with 20 percent of a year's excess or shortfall being recognized each year, beginning with the current year. All systems use the entry age actuarial cost method and the level percent of payroll amortization method. The remaining amortization period for all systems is open group, 20 years, open period. An inflation rate of 3 percent is used for all systems. Post-retirement cost of living adjustments are non-compounding and are based on the original benefit. The adjustments are also limited to the actual CPI increase for the year with any unusual CPI increase not met carried forward to subsequent years. Below are the Schedules of Funding Progress.

Schedules of Funding Progress
By Valuation Date
(Expressed in Thousands)

	Contributory System	Noncontributory System	Public Safety System	Firefighters System	Judges System	Governors and Legislative Retirement Plan
Actuarial Value of Assets:						
January 1, 2006	$ 951,540	$ 13,069,362	$ 1,633,022	$ 644,496	$ 106,374	$ 10,587
January 1, 2007	$ 1,004,452	$ 14,446,928	$ 1,809,198	$ 705,051	$ 116,879	$ 10,983
December 31, 2007	$ 1,091,854	$ 16,209,330	$ 2,038,613	$ 787,663	$ 129,847	$ 11,736
Actuarial Accrued Liability (AAL):						
January 1, 2006	$ 1,027,309	$ 14,018,540	$ 1,834,452	$ 614,359	$ 106,962	$ 8,974
January 1, 2007	$ 1,062,967	$ 15,084,061	$ 1,968,982	$ 643,765	$ 117,127	$ 9,212
December 31, 2007	$ 1,095,547	$ 16,084,896	$ 2,105,380	$ 687,939	$ 123,992	$ 9,179
Unfunded Actuarial Accrued Liability (UAAL):						
January 1, 2006	$ 75,769	$ 949,178	$ 201,430	$ (30,137)	$ 558	$ (1,613)
January 1, 2007	$ 58,515	$ 637,133	$ 159,784	$ (61,286)	$ 248	$ (1,771)
December 31, 2007	$ 3,693	$ (124,434)	$ 66,767	$ (99,724)	$ (5,855)	$ (2,557)
Funding Ratios:						
January 1, 2006	92.6 %	93.2 %	89.0 %	104.9 %	99.5 %	118.0 %
January 1, 2007	94.5 %	95.8 %	91.9 %	109.5 %	99.8 %	119.2 %
December 31, 2007	99.7 %	100.8 %	96.8 %	114.5 %	104.7 %	127.9 %
Annual Covered Payroll:						
January 1, 2006	$ 137,730	$ 3,165,504	$ 298,756	$ 84,061	$ 11,594	$ 887
January 1, 2007	$ 133,812	$ 3,326,392	$ 316,662	$ 88,682	$ 12,195	$ 860
December 31, 2007	$ 132,899	$ 3,582,495	$ 339,187	$ 95,767	$ 13,322	$ 947
UAAL as a Percent of Covered Payroll:						
January 1, 2006	55.0 %	30.0 %	67.4 %	(35.9)%	5.1 %	(181.8)%
January 1, 2007	43.7 %	19.2 %	50.5%	(69.1)%	2.0 %	(205.9)%
December 31, 2007	2.8 %	(3.5)%	19.7 %	(104.1)%	(43.9)%	(270.0)%

B. **Teachers Insurance and Annuity Association–College Retirement Equities Fund**

Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA–CREF), privately administered defined-contribution retirement plans, provides individual retirement fund contracts for each eligible participating employee. Eligible employees are mainly state college/university faculty and staff. Benefits to retired employees are generally based on the value of the individual contracts and the estimated life expectancy of the employee at retirement and are fully vested from the date of employment. The total current year required contribution and the amount paid is 14.2 percent of the employee's annual salary. The State has no further liability once annual contributions are made.

The total contribution made by the college and university (component units) to the TIAA–CREF retirement system for June 30, 2008 and 2007, were $108.887 million and $113.158 million, respectively.

NOTE 17. OTHER POSTEMPLOYMENT BENEFITS

At the option of individual state agencies, employees may participate in the State's Other Postemployment Benefit Plan (OPEB Plan), a single-employer defined benefit healthcare plan, as set forth in Section 67–19–14(2) of the *Utah Code*. The State administers the OPEB Plan through the State Post-Retirement Benefits Trust Fund, an irrevocable trust, as set forth in Section 67–19d–201 of the *Utah Code*. The trust fund is under the direction of a board of trustees, which consists of the State Treasurer, the Director of the Division of Finance, and the Director of the Governor's Office of Planning and Budget.

Plan assets of the State Post-Retirement Benefits Trust Fund are irrevocable and legally protected from creditors and dedicated to providing postemployment health and life insurance coverage to current and eligible future state retirees in accordance with the terms of the plan. The State Post-Retirement Benefits Trust Fund does not issue a publicly available financial report, but is included in this report of the primary government using the economic resources measurement focus and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations from major investment brokers at current exchange rates, as available. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors have determined the fair values for the individual investments.

Only state employees entitled to receive retirement benefits and hired prior to January 1, 2006, are eligible to receive postemployment health and life insurance benefits from the OPEB Plan. Upon retirement, an employee receives 25 percent of the value of their unused accumulated sick leave as a mandatory employer contribution into a 401(k) account. The employee may exchange one day of remaining unused accumulated sick leave earned *prior* to January 1, 2006, for one month of paid health and life insurance coverage up to age 65. Regardless of the unused sick leave balance, the State will provide postemployment health and life insurance coverage for up to five years (if the employee retired in 2006) or until the employee reaches age 65. This automatic coverage provision will decline by one year each calendar year until it is completely phased out on January 1, 2011. After age 65, the employee may use any remaining unused accumulated sick leave, earned *prior* to January 1, 2006, to exchange for spouse health insurance to age 65, or Medicare supplemental insurance for the employee or spouse. As of December 31, 2006, the date of the latest actuarial valuation, approximately 6,819 retirees and their beneficiaries were receiving state post-retirement health and life insurance benefits, and an estimated 17,126 active state employees are eligible to receive future benefits under the OPEB Plan.

The contribution requirements of employees and the State are established and may be amended by the State Legislature. For retirees that participate in the OPEB Plan, health insurance premiums are paid 100 percent by the State for individuals that retired before July 1, 2000. Individuals retiring thereafter are required to contribute specified amounts monthly, ranging from 2 percent to 7 percent, toward the cost of health insurance premiums. For the year ended June 30, 2008, retirees contributed $1.386 million, or approximately 4.8 percent of total premiums, through their required contributions of $7.76 to $80.36 per month depending on the coverage (single, double, or family) and health plan selected.

The State Legislature currently plans to contribute amounts to the trust fund sufficient to fully fund the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC of $53.491 million is 7.2 percent of annual covered payroll. There are no long-term contracts for contributions to the plan. The following table shows the components of the state's annual OPEB cost for the year, amount actually contributed to the plan, and changes in the State's net OPEB obligation for fiscal year 2008 (dollar amount in thousands):

Annual required contribution	$ 53,491
Interest on net OPEB obligation	(41)
Adjustment to annual required contribution	52
Annual OPEB cost (expense)	53,502
Contributions made	(52,811)
Increase in net OPEB obligation	691
Net OPEB obligation (asset) – Beginning of year	(691)
Net OPEB obligation – End of year	$ 0

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) for fiscal year 2008 and the preceding year were as follows (dollar amount in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2007	$ 50,433	101.37 %	$ (691)
6/30/2008	$ 53,502	98.71 %	$ 0

As of December 31, 2006, the actuarial accrued liability (AAL) for benefits was $669.617 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $669.617 million. The covered payroll (annual payroll of active employees covered by the plan) was $748.096 million, and the ratio of the UAAL to the covered payroll was 89.51 percent. The State of Utah implemented the State Post-Retirement Benefits Trust Fund, in

April 2007, after the December 31, 2006, actuarial valuation date. At the actuarial valuation date there were no trust fund assets. As of June 30, 2008, there were $51.881 million in net assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, is designed to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2006, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 6 percent investment rate of return per annum (compounded annually, composed of a 3 percent inflation rate and 3 percent real rate of return), net of administrative expenses. The projected annual healthcare cost trend rate is 10 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after eleven years. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at December 31, 2007, was twenty-four years.

NOTE 18. RISK MANAGEMENT AND INSURANCE

It is the policy of the State of Utah to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished by the State through the Risk Management (internal service fund) and the Public Employees Health Program (component unit). The State is a major participant in these programs. The Risk Management Fund manages the general property, auto/physical damage, and liability risk of the State. The Public Employees Health Program manages the health insurance and long-term disability programs of the State. The University of Utah, Utah State University, Southern Utah University, Salt Lake Community College, and Utah Valley University (component units) each maintain self-insurance funds to manage health care. The University of Utah also maintains a self-insurance fund to manage medical malpractice liabilities.

The State has determined that the risk funds can economically and effectively manage the State's risks internally and have set aside assets for claim settlement. The risks are covered through reserves and commercial insurance for excessive losses. The State has not had any losses or settlements that exceeded the commercial excess insurance coverage for any of the last three years. The risk funds service all claims for risk of loss to which the State is exposed, including general liability, property and casualty, auto/physical damage, group medical and dental, disability, and some environmental claims. They also service the general risk claims for all local school districts and many charter schools within the State. All funds, agencies, public schools, and public authorities of the State may participate in the State's Risk Management and Public Employees Health Programs. The risk funds allocate the cost of providing claims servicing, claims payment, and commercial insurance by charging a "premium" to each agency, public authority, or employee, based on each organization's estimated current year liability and property values. The reserve for liability losses is determined using an independent actuarial study based on past, current, and estimated loss experiences.

Risk Management and Public Employees Health Program claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated and include an amount for claims that have been incurred but not reported. Because actual claims liabilities are affected by complex factors including inflation, changes in legal doctrines and insurance benefits, and unanticipated damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts. Claims liabilities are recomputed periodically by actuaries to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Inflation is included in this calculation because reliance is based on historical data that reflects past inflation and other appropriate modifiers. The Risk Management claim liabilities reserves are reported using a discount rate of 5 percent. The Public Employees Health Program long-term disability benefit reserves are reported using a discount rate of 5.5 percent. The primary government and the discrete component units of the State paid premiums to the Public Employees Health Program of $243.267 million and $15.166 million, respectively, for health and life insurance coverage in fiscal year 2008. In addition, the State Department of Health paid $34.185 million in premiums to the Public Employees Health Program for the Children's Health Insurance Program.

All employers who participate in the Utah Retirement Systems are eligible to participate in the Public Employees Long-term Disability Program per Section 49–21–201 of the *Utah Code*. Employees of those state agencies who participate in the program and meet long-term disability eligibility receive benefits for the duration of their disability up to the time they are eligible for retirement or until age 65. Benefits begin after a three-month waiting period and are paid 100 percent by the program. As of June 30, 2008, there are 300 state employees receiving benefits. The program is funded by paying premiums to the Public Employees Health Program (component unit), where assets are set aside for future payments. For the fiscal year ended June 30, 2008, the primary government and the discrete component units of the State paid premiums of $5.230 million and $129 thousand, respectively, for the Long-Term Disability Program.

The State covers its workers' compensation risk by purchasing insurance from Workers' Compensation Fund (a related organization). The University of Utah, Utah State University, Southern Utah University, Salt Lake Community College, and Utah Valley University report claims liabilities if it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The University of Utah and the University of Utah Hospital and Clinics have a "claims made" umbrella malpractice insurance policy in an amount considered adequate by their respective administrations for catastrophic malpractice liabilities in excess of the trusts' fund balances. Amounts for the current year are included below. The following table presents the changes in claims liabilities balances (short and long-term combined) during fiscal years ended June 30, 2007 and June 30, 2008:

Changes in Claims Liabilities
(Expressed in Thousands)

	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management:				
2007	$ 46,725	$ 9,765	$ (11,735)	$ 44,755
2008	$ 44,755	$ 8,123	$ (11,593)	$ 41,285
Public Employees Health Program:				
2007	$ 123,435	$ 537,009	$(539,315)	$ 121,129
2008	$ 121,129	$ 556,909	$(556,222)	$ 121,816
College and University Self-Insurance:				
2007	$ 58,175	$ 210,158	$(196,602)	$ 71,731
2008	$ 71,731	$ 203,846	$(200,378)	$ 75,199

NOTE 19. SUBSEQUENT EVENTS

Investments are reported at fair value as of June 30, 2008. Subsequent to this date, the financial markets have experienced significant turmoil and distress. As of the date of this report, it is difficult to determine the ultimate affect market conditions may have on the investments being held.

The defined benefit pension plans and defined contribution plans (fiduciary funds) administered by Utah Retirement Systems are reported as of December 31, 2007. Subsequent to this date, the financial markets have experienced turmoil causing significant market value decreases. As of the date of this report, it is difficult to determine the long-term affect market conditions may have on these plans.

On July 31, 2008, the State sold the Human Services building for $11 million. A portion of the sale proceeds was used to pay off debt related to the building of $4.887 million and the reminder was used to acquire the Brigham Young University Salt Lake City Center located in downtown Salt Lake City.

Subsequent to June 30, 2008, Moody's Investor Service revised its current municipal rating on MBIA Insurance Corporation (MBIA) from "A2" to "Baa1". This downgrade affects Lease Revenue Bonds Series 2007 A issued by the Utah State Building Ownership Authority (blended component unit) and secured by bond insurance from MBIA.

Subsequent to June 30, 2008, the State Charter School Finance Authority (component unit) issued $29.65 million in tax-exempt and $355 thousand in taxable conduit debt on behalf of various charter schools. Proceeds of the bonds will be used for acquiring or constructing charter school facilities.

During the 2008 General Session of the Utah Legislature, House Bill 352 was passed which recognized the repeal of the Utah Navajo Trust Fund (private purpose trust fund) under *Utah Code* Section 63I–1–263(8), Legislative Oversight and Sunset Act. The bill moved responsibility to fulfill the liabilities and obligations of the repealed Utah Navajo Trust Fund to the Department of Administrative Services (a State of Utah department), and provided for a transition process until Congress designates a new recipient of Utah Navajo royalties. A new trust fund was created on July 1, 2008 to hold: 1) the monies in the repealed Navajo Trust Fund as of June 30, 2008, 2) Utah Navajo royalties received by the State on or after July 1, 2008, 3) investment earnings, and 4) monies owed to the repealed Trust Fund.

Subsequent to June 30, 2008, Utah Housing Corporation (major component unit) observed that in a press release dated September 15, 2008, Lehman Brothers Holdings Inc. stated that it had filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the United States Bankruptcy Court for the Southern District of New York. This entity was at June 30, 2008 counterparties to the Corporation's interest rate swaps. Management expects that the counterparty interest will be assigned or replaced by another entity prior to the end of calendar year 2008. In the opinion of management, the bankruptcy of Lehman Brothers Holdings Inc. will not have a material effect on the financial statements of the Corporation.

On October 7, 2008, the University of Utah (major component unit) issued $9.36 million Research Facilities Revenue Refunding Bonds. Principal on the bonds is due annually commencing April 1, 2009 through 2022. Interest is due semiannually at rates ranging from 3.25 percent to 5.00 percent. Proceeds from these bonds will be used to fully refund Series 2007 A.

On December 1, 2008, the University of Utah (major component unit) issued $20.6 million variable rate Hospital Revenue Refunding Bonds, Series 2008. Principal on the bonds is due annually commencing August 1, 2009 and matures August 1, 2031. Interest is due semiannually at an estimated interest rate of 4.5 percent. Proceeds from these bonds will be used to fully refund Series 2006 B.

On July 22, 2008, Southern Utah University (nonmajor component unit) issued $12.025 million Auxiliary System and Student Building Fee Revenue Bonds, Series 2008. Interest rates on the bond range from 3.50 percent to 5.25 percent and mature May 1, 2021.

Subsequent to June 30, 2008, the Student Assistance Programs (major enterprise fund) has drawn $35.373 million on the liquidity facility to support certain bonds under the Series 1993 A, which had not been remarketed. Under the terms of the liquidity facility, interest on the bonds is paid at the Bank Rate, which is defined as the Base Rate plus .50 percent. The Base Rate is the greater of the Federal Funds Rate plus .50 percent or the Prime Rate. This rate increases by .85 percent if the bonds remain in the liquidity facility for more than 90 days. The current Bank Rate is 5 percent. The bonds are redeemable in installments pursuant to the Term Out agreement defined in the Letter of Credit Agreement.

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